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CANADA

REPORT OF THE AUDITOR GENERAL  
TO THE HOUSE OF COMMONS

for the  
FISCAL YEAR ENDED MARCH 31  
1965







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**REPORT OF THE AUDITOR GENERAL  
TO THE HOUSE OF COMMONS**

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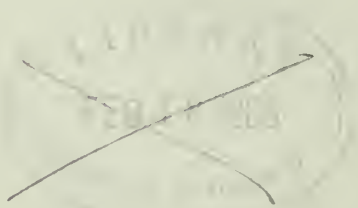
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(as published in the Public Accounts)

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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, R.S., c. 116.

2. In accordance with the requirement of section 70 of the Act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1965. Subsection (1) of the section reads:

The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main Classifications and Departments, both as included in the 1965 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

#### *Standing Committee on Public Accounts*

4. In my Report to the House of Commons for the year ended March 31, 1964 which was tabled on February 16, 1965, I was pleased to state that this was the first time in recent years that the Public Accounts Committee completed its examination of the Auditor General's Report to the House of Commons before a succeeding report had been tabled.

The Committee last met on March 15, 1965 when it approved its Ninth Report 1965 to the House on the Form and Content of the Public Accounts. No meetings have been held by the Committee since nor has my 1964 Report been referred by the House to the Committee for study.

A summarized listing was given a year ago detailing the fifty recommendations and observations made by the Committee which had not been implemented or otherwise dealt

with by Executive action at that time. Since then, action has been taken by the Executive on ten of these recommendations, details of which will be laid before the Committee when it next convenes. The remaining forty recommendations and observations not yet implemented are again listed in Appendix 1 of this Report.

The ten recommendations on which action has been taken dealt with the following matters:

Fourth Report 1964

Advertising costs

Educational leave costs

Payment of maintenance expenses of Civil Service Recreational Association Centre

Fifth Report 1964—Canadian Broadcasting Corporation

Annual report

Statement of Operations

Size of operating and capital requirements

Authority of Comptroller over Regional Accountants

Sixth Report 1964

Lease termination payments

Superannuation Accounts

Eighth Report 1964

Employment of part-time doctors by Department of Veterans Affairs

In addition, there was partial implementation of the Committee's recommendations respecting the form and content of the Estimates (Fourth Report 1964), accounts receivable (Sixth Report 1964), surplus assets disposal (Seventh Report 1964) and amendments to the Customs Act and the Excise Tax Act (Eighth Report 1964). Details will be found in paragraphs 9, 168, 195 and 90 of this Report.

*Summary of Employees Authorized for the Public Service*

5. Appendix 3 shows that the two largest items of expenditure continue to be interest on the public debt totalling \$1,051 million and civil salaries and wages amounting to \$952 million, which together represent almost 28% of the total budgetary expenditure for the year. The public debt charge is the subject of a detailed appendix in the Public Accounts. With respect to civil salaries and wages, this Report again contains a summarized list (Appendix 2) showing the number of employees authorized and on strength in the public service by departments, Crown corporations and other instrumentalities at March 31, 1965 compared with the number at the close of the preceding year.

It will be noted from Appendix 2 that only 6 out of the 35 departments shown reported a reduction in the number of employees on strength at March 31, 1965 compared with the situation at the close of the preceding year. The strength of one small department remained unchanged. On the other hand, the remaining 28 departments reported staff increases at March 31, 1965 over March 31, 1964 of 7,228 employees or 6%.

*Scope of the Audit*

6. Examinations of the departmental accounts for the year ended March 31, 1965 were made in conformity with section 67 of the Financial Administration Act which reads:

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

In my Report last year I mentioned the extent to which staff recruitment difficulties had continued to handicap the work of the Audit Office but expressed the hope that it would be possible to increase the scope of the work before March 31, 1965 and to see the full effect of this improvement in the fiscal year 1965-66.

Although the working strength of the Audit Office is still short of the establishment approved with effect from October 1, 1964, the Office has managed to increase and diversify the scope of its work during the past year. The extent to which this can be developed further will depend on the success that can be achieved in filling the establishment vacancies over the next few months.

Our examinations continued to include a general review of accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those corporations and other instrumentalities listed in paragraph 183 whose accounts were subject to examination by other auditors.

The accounts relating to the receipts and disbursements of the Office of the Auditor General were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act. In this connection, the Public Accounts Committee, in its Eighth Report 1964 (see Appendix 1, item 40) has recommended that this section of the Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations



and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has continued to follow its practice of addressing detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the year. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Matters dealt with in these reports that are considered to be of interest to the House of Commons are referred to in the relevant sections of this Report.

#### *Findings of Royal Commission on Government Organization*

7. In my 1963 Report to the House I outlined my concept of the responsibilities of the Auditor General to Parliament with regard to those findings of the Royal Commission on Government Organization (1960 to 1963) relating to outdated procedures, uneconomical operations and wasteful practices. I stated that to the extent its reports correctly indicated where and how savings of public funds could be made, I believe the Auditor General has a responsibility to Parliament to follow through and ascertain what action has been or will be taken toward achieving such savings. In its Fourth Report 1964 the Standing Committee on Public Accounts expressed the opinion that this concept of the responsibilities of the Auditor General is in accord with the intent and wishes of Parliament.

It is important first to distinguish between a finding of this Royal Commission and a recommendation. A finding is an observation or critical comment made in the reports on a specific situation or condition existing in the public service as distinct from a recommendation which, in the Commission's view, is calculated to remedy one or more individual finding. Throughout the reports there are an estimated 276 specifically worded recommendations. On November 5, 1963 the Government approved 68 of these recommendations and on February 9, 1965 approved 32 more, leaving 176 yet to be dealt with.

We have made a study in depth of each of the 24 reports of the Royal Commission. Excluding Report 19 dealing with the Canadian Broadcasting Corporation to which we refer in paragraph 187, our study disclosed over one thousand individual findings. The majority of these related to policy or organizational practices where, for example, more efficient results might be achieved by rearrangement of the existing procedures or organization without necessarily saving public funds. The remainder—approximately 450 findings—dealt with specific situations or conditions involving outdated procedures, uneconomical operations and wasteful practices, elimination or remedy of which would not only improve efficiency but could result in substantial savings of public funds. Each of these individual findings has been followed through by the staff of the Audit Office to ascertain what action has been or will be taken toward achieving such savings.

In order to make our enquiry as broad as possible, we selected 32 departments and agencies whose operations had been studied by the Royal Commission three years ago



and where the conditions giving rise to the 450 findings existed. The enquiry, which was carried out in the course of our regular audit work, involved seeking answers to over 900 questions at the appropriate levels in the departments and agencies. The results were as follows:

Condition still exists—		
No action taken.....	39%	
Said to be "under study".....	34%	
	—	73%
Condition "remedied".....		24%
Disagreed with the findings.....		3%

The largest single set of findings checked were those contained in Report 4, "Paperwork and Systems Management", 148 of which we discussed with officials of 23 departments and agencies. The answers received conformed with the results obtained from our enquiries into the findings disclosed in the other reports. They demonstrated that with respect to a number of important findings, effective action cannot be taken at the departmental level until basic decisions are taken by top management. For example, greater decentralization of authority would enable the heads of departments and agencies to take more positive steps to correct prevailing practices and thereby effect savings without diminishing efficiency. We found no lack of awareness at the various departmental levels of the need to deal with these situations. It was explained to us, however, that few changes could be made without instructions from top management. It must be added here that in many instances top management is itself unable to issue these instructions because a number of the practices and procedural processes under criticism have their origin in statutes which only Parliament can change.

We found this also to be largely the case with findings disclosed in Report 3 dealing with "Personnel Management". Our review of these findings led us to the conclusion that most of the conditions criticized by the Royal Commission concerning the practices of the Civil Service Commission do in fact continue to exist. With certain reservations, the Commission has indicated its agreement with this conclusion.

The 100 recommendations selected by the Government for approval up to February 9, 1965 included several that are proving time-consuming and costly to implement. The most important of these recommendations were made under the headings of Planning and Expenditure Control in Report 2 on "Financial Management" where the Royal Commission recommended that departmental estimates be prepared on the basis of programs of activity instead of by standard objects of expenditure, and that departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources at their disposal.

The implementation of basic changes such as these in an organization the size of the Government of Canada requires extensive study and specialized work at many levels to ensure that the changes will in fact produce the desired result. Considerable effort has been and continues to be expended both by the Treasury Board staff and departmental manage-

ments in working toward this objective. Since the Royal Commission made its recommendations nearly three years ago, over 30 special projects and studies have been carried out or are in process involving studies of individual departmental operations by firms of management consultants. The general object of these studies is not only to determine how to adapt the specific operations of certain departments and agencies to meet the recommendations made by the Commission, but also how to achieve the maximum in operational efficiency. A number of these studies, carried out jointly with senior departmental officials, are laying an excellent groundwork for improved management training and the introduction of more modern techniques, particularly in the financial and accounting areas. The cost of these outside services up to the present is estimated at \$1.5 million.

The cost of the Royal Commission itself was approximately \$3 million in the period 1960 to 1963. Thus a substantial sum has already been spent in endeavouring to bring the government organization into line with modern standards and practices. The task is far from complete and obviously more expenditure will be incurred.

It is not possible to place any figure on the total savings achieved to date through remedial action already taken, nor is it possible even to estimate the extent of such savings at this stage. Since the Royal Commission concluded its work three years ago, administrative overhead in departments and agencies has risen substantially in terms of staff needs and office costs. In the 1962-63 fiscal year this was to the order of \$1,000 million. The comparable figure estimated for 1965-66 is \$1,200 million, an increase of 20% over the three-year period. As mentioned in paragraph 5 of this Report, the staffs of 28 of the 35 departments shown in Appendix 2 have increased in size by 7,228 employees or 6% during the past year.

There is no question that it is desirable that steps be taken to improve the Estimates presentation to provide Parliament with better information, and to proceed with large organizational changes designed to improve efficiency. Nevertheless, the fact remains that more immediate action directed at abolishing or otherwise correcting the conditions disclosed by the Commission relating to outdated procedures, uneconomical operations and wasteful practices that still exist could result in appreciable savings in public funds now.

In my opinion this could be achieved if greater priority were given by top management to tackling these conditions. Many of the 276 recommendations of the Royal Commission were designed to remedy these conditions. Whether they will or not, it would clearly be of material assistance to management if the 176 recommendations still outstanding could be dealt with as quickly as possible.

### *Internal Control*

8. A fundamental part of any audit is a critical review of the accounting and internal controls within the organization. This embraces the entire system of controls, financial and otherwise, established by management in order to carry out operations in an orderly and efficient manner, to ensure adherence to prescribed managerial policies, to safeguard the assets for which management is responsible, and to check as far as possible the accuracy and reliability of its records.

The reports of the Royal Commission on Government Organization and of the management consultants previously referred to provide the Audit Office with helpful information in determining the degree of reliance which can be placed on the system of internal control in the departments and agencies. The recent institution by the Treasury Board of a new series of management improvement directives to departments and agencies is also of material help to the Office.

An important feature of effective internal control is the provision made for management to review the financial operations at regular and frequent intervals by means of interim reports, operating summaries and other related financial and statistical information. Comparison of results with those of previous periods may indicate discrepancies that call for further examination and, where budgetary controls are in use, attention is drawn to important variances on which explanations may be required. Thus managerial supervision and review of this nature is an essential element in any effective control.

Since 1960 I have recommended more accurate cost determination, wider use of effective periodic statements and the employment of other modern techniques whereby departmental management could improve control over the costs for which it is responsible. The importance of these points was stressed by the Royal Commission on Government Organization in Volume 1 of its reports published on September 6, 1962, and it is particularly encouraging to note the recognition now being given to these points by top management.

Internal auditing is an integral part of a department's system of management control. It is first and foremost a management tool to ensure good performance and therefore it should be carried out under the exclusive direction of senior departmental management if it is to function to best advantage. It is important to the external auditor in determining the scope of his work because where the internal auditor's work is effectively carried out, the amount of work to be performed by the external auditor can usually be substantially curtailed. Consequently, in his capacity as the external auditor, the Auditor General is particularly interested in the degree of management's acceptance of the findings and recommendations of its internal auditor and in the action taken.

In my opinion, greater progress could be made in recognizing the importance of internal audit. While a number of the larger departments and Crown corporations possess their own staffs, a number have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern practice requires.

The solution of these problems does not lie in engaging more staff but in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, Crown corporations and other agencies.

#### *Form and Content of the Estimates*

9. The Public Accounts Committee last reported on the form and content of the Estimates in its Fourth Report 1964, presented to the House on July 28, 1964. Its recommendations and observations at that time will be found in Appendix 1, item 6.



It will be noted that the Committee recommended adoption of the revised vote pattern proposed by the Treasury Board for introduction in the Main Estimates 1964-65, subject to certain improvements suggested by the Auditor General to the Committee at that time. The revised vote pattern was duly adopted in the Main Estimates 1964-65 and this made it possible to transfer funds between services with the Treasury Board's approval which would not have been possible under the former vote pattern. The vote pattern actually used in the Estimates differed in certain instances from the pattern which had been submitted to and approved by the Public Accounts Committee. Details of these differences and examples of transfers made possible by the revised vote pattern are contained in paragraph 51.

The Committee also recommended the inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services so as to provide better information to the House with respect to the nature of the fiscal requirements of the corporations and other agencies requiring financing by parliamentary appropriations. However, this recommendation has not yet been implemented. Additional information concerning the staffs of all government departments and Crown corporations has been placed in the Main Estimates, 1965-66.

We understand that the Treasury Board, as a result of its consideration of the recommendations of the Royal Commission on Government Organization, expects to submit proposals to the Public Accounts Committee in due course designed to present the Estimates of a number of departments on a program and activity basis with a view to having this replace the present objects of expenditure basis over a period of time.

It should be pointed out that a change of this type in the form of the Estimates will not only require changes in many of the accounting procedures but will necessitate changes in a number of the financial statements. This will result because the form of the Estimates determines in large measure how the subsequent accounting for expenditure is maintained and reported in the Public Accounts. Both the form and the content of the Estimates are important to the Auditor General because of his responsibilities to Parliament.

#### *Form and Content of the Public Accounts*

10. Over the past several years I have recommended that consideration be given to summarizing or otherwise reducing the number of detailed listings included in the Public Accounts. I have also pointed out additional important information which should be disclosed.

The form and content of the Public Accounts were reviewed by a sub-committee of the Public Accounts Committee in 1964 when consideration was given both to my recommendations and to those put forward by the Comptroller of the Treasury. Following the sub-committee's study of the Public Accounts for 1962-63, the Public Accounts Committee included the following in its Ninth Report 1965 presented to the House on March 15, 1965:

## RECOMMENDATIONS FOR DELETION

3. Based on the above findings and observations [of the sub-committee], your Committee recommends that the following information be deleted from Volume II of the Public Accounts:

	Estimated savings
(a) listings of salary rates and travelling expenses of employees (Section 38).....	92 pages
(b) listings of payments to suppliers and contractors (Section 39).....	65 pages
(c) listings of names of persons on educational leave (e.g., Section 1.4) (See also para. 15).....	3 pages
(d) listings of construction or acquisition of buildings, works, and land by area, region, etc. (e.g., Section 7.11).....	12 pages
(e) statements of assistance to gold mining companies (Section 19.15) on the understanding that the information continues to be included in the departmental report.....	5 pages
(f) statement of expenditures by staff post offices for salaries, etc., and statement of expenditures by postal districts and services (Section 27.4 and 27.8).....	3 pages
(g) listings of contracts for construction or acquisition of buildings, etc., when the amount is less than \$100,000, and for cost plus contracts under \$10,000. The present listings are for amounts of \$10,000 or over (\$25,000 or over for defence contracts) and \$5,000 or over for cost plus contracts (e.g., Sections 31.61 and 35.34).....	149 pages
(h) distribution of expenditure by services and units of the Standards Branch (Section 34.7).....	1 page
	<hr/> 330 pages <hr/>

Your Committee further recommends that listings of the travelling expenses of employees in excess of \$1,000 and of payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the Committee.

4. Your Committee recommends that the following detailed information be replaced by statements in summary form:

	Estimated savings
(a) listings of professional fees by type of service, together with detailed listings of professional fees of \$2,000 and over (e.g., Section 1.13).....	9 pages
(b) detailed listings of the acquisition of equipment; to be replaced by summarized listings according to type of equipment (e.g., Section 1.9).....	8 pages
(c) details of expenditures for general elections and by-elections by electoral districts; a summary by provinces to be retained (Section 6.4).....	12 pages

	Estimated savings
(d) listings of doctors receiving fees of \$1,000 or over and hospitals receiving \$5,000 or over; to be replaced by a summary by categories of service (e.g., Section 23.39).....	5 pages
(e) details of expenditures by provinces and district re any census of Canada; to be replaced by a summary listing by provinces (Section 34.9 to 34.38, 1961-62 Public Accounts).....	28 pages
(f) listing of salaries of Judges by Courts; to be replaced by a summarized statement of salary rates (Section 16.4 and Section 16.5).....	1 page
(g) distribution of revenues and expenditures by Penitentiaries; to be replaced by a statement by institution showing (1) revenue and (2) expenditure on (a) operation and maintenance and (b) construction, improvements and equipment (Section 16.17)	2 pages
	65 pages
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5. Your Committee recommends that the following material be deleted from the Public Accounts if and when substantially similar information is published in the annual reports of the appropriate departments:

	Estimated savings
(a) statements of payments of general health grants to provinces from inception (Section 23.8).....	2 pages
(b) listing of grants to agricultural fairs, exhibitions, etc. (e.g., Section 1.19).....	2 pages
(c) details of health grants (Section 23.10 to 23.28).....	19 pages
(d) details of hospital construction grants (Section 23.30 to 23.37)....	7 pages
	30 pages
	==

6. In making the foregoing recommendations regarding the deletion of information from the Public Accounts, your Committee understands that the information so deleted would continue to be retained in the accounting records maintained in the Office of the Comptroller of the Treasury and would ask the Minister of Finance to take the necessary steps to ensure that it would be available to Members of Parliament on request.

7. Your Committee has been informed that the cost of printing a page of the Public Accounts is \$25. The recommended deletions would eliminate approximately 400 pages from each of the English and French versions, with a resulting saving in printing costs alone of some \$20,000.

#### RECOMMENDATIONS FOR REARRANGEMENT OF INFORMATION

8. Your Committee recommends that in Volume I the explanatory notes to the schedules to the Statement of Assets and Liabilities, which are now presented immediately following



the schedules to which they refer, be grouped together and printed at the end of the schedules, with appropriate reference to the schedule and item, e.g., for Item 1 of Schedule M, the note would be described as M-1, etc.

#### RECOMMENDATIONS FOR THE INCLUSION OF ADDITIONAL INFORMATION

9. Your committee gave consideration to the inclusion of additional important information in the Public Accounts along the lines suggested by this Committee and the Auditor General.

10. In its Fourth Report 1964, presented to the House on July 28, 1964, in paragraphs 30-32, this Committee requested the Auditor General to keep it informed as to the progress of a study being made for the purpose of having all costs of financial assistance to persons on educational leave assembled in one place so that Parliament might be better informed as to the total cost of this particular phase of the educational program designed to increase the capacity of public servants. Your Committee expresses the hope that this study will be completed shortly so that the total educational leave costs may in future be shown with respect to each department in Volume II of the Public Accounts, commencing with that for the fiscal year 1964-65.

11. In its Sixth Report 1964, presented to the House on October 20, 1964, in paragraph 26, the Committee recorded its agreement with the Auditor General's observation that it would be informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts of Canada each year. Following consideration of this recommendation by the Comptroller of the Treasury, your Committee was pleased to be advised by the Comptroller of the Treasury that arrangements are under way for the inclusion of such a summary in the Public Accounts effective for the fiscal year 1964-65.

12. Your Committee recommends that the following additional information suggested by the Comptroller of the Treasury be included in the Public Accounts:

- (1) In Volume II, the overall summaries of expenditures and revenues by departments to be published at the beginning of the volume, the totals of which would agree with the amounts included in the Statement of Expenditure and Revenue shown in Volume I.
- (2) In Volume II, for each department there be included a statement similar to that now presented in the Estimates, showing the approximate or estimated value of major services provided to the department, the cost of which is not included as a charge to the departmental appropriations. This statement would include:
  - (a) accommodation provided by the Department of Public Works or in the department's own buildings;
  - (b) accounting and cheque issue services provided by the Comptroller of the Treasury;
  - (c) contributions to the Superannuation Account charged to the Department of Finance appropriations;
  - (d) employee surgical-medical insurance premiums charged to Department of Finance appropriations;
  - (e) employee compensation payments charged to Department of Labour appropriations; and
  - (f) carrying of franked mail by the Post Office Department.
- (3) A similar statement showing the services provided to other departments for which no reimbursement is received also to be included for each department.

13. The above plan to include a statement in each departmental section showing the approximate or estimated value of major services provided without charge is only a preliminary step. It is understood that the ultimate aim would be to apportion these service costs to the relevant votes or services.

14. Your Committee recommends that the following additional information suggested by the Auditor General be included in Volume II of the Public Accounts:

- (1) effective for the fiscal year 1964-65, a statement of all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal by Crown Assets Disposal Corporation; and
- (2) effective for the fiscal year 1964-65, a statement detailing the amount of losses incurred as a result of the accidental destruction of or damage to assets which would normally be covered by insurance had such coverage existed.

15. Your Committee recognized in the course of the discussions with the Comptroller of the Treasury and the Auditor General that the possibility exists that the inclusion of further additional information in the Public Accounts might be desirable from time to time and endorses their suggestion that this be placed in the Public Accounts by the Comptroller or be brought forward by the Auditor General for discussion and consideration by this Committee.

With the exception of the recommendation contained in paragraph 14 (1) above, all of the foregoing recommendations have been implemented by Executive action during the year and given effect to in the Public Accounts for 1964-65. A Treasury Board directive dated January 21, 1965 provides that the statement of material declared surplus, called for by paragraph 14 (1), will be included in the Public Accounts for the fiscal year 1965-66.

#### *Office of the Auditor General*

11. In last year's Report mention was made of the manner in which the required staff establishment of the Audit Office was assessed at 220 employees which was approved effective October 1, 1964. At that date actual working strength totalled 173. It was 193 at November 30, 1965.

The Office is thus 27 employees short of its establishment, a condition which is placing a heavy burden on the Office in carrying out its responsibilities. As already mentioned, the Office has nevertheless managed to increase and diversify the scope of its work while every effort is being made by the Civil Service Commission toward filling the vacant positions as speedily as possible.

The Public Accounts Committee considered the circumstances surrounding this constant staff shortage at some length in 1962 and 1963. In its Fourth Report 1964 presented to the House on July 28, 1964 it recorded its belief that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and the Crown corporations generally. The Committee, noting that amendments to the Financial Administration Act were to be introduced in due course, stated that it believed consideration should be given to appropriate amendments designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office. This situation remains unchanged, no action having been taken yet towards implementing these recommendations.



The position of the Office was greatly strengthened by the action of the Institute of Chartered Accountants of Quebec in June 1964 when this Institute officially recognized the Office of the Auditor General of Canada in the Province of Quebec for the training of a number of students serving in that Province who meet the Institute's educational and other requirements. At the present time six students are serving in this manner in our Montreal office.

This is the first time the Office of the Auditor General of Canada has been accorded such recognition. On behalf of the staff of the Office, I should like to record our appreciation of this action on the part of the Quebec Institute which should go far toward raising the prestige and standards of the Office now and in the years ahead.

Recognition along similar lines is actively under consideration by the Institute of Chartered Accountants of Ontario.

### Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The statement shows a deficit of \$38 million for the year. By comparison, there were deficits of \$619 million in the preceding year and \$692 million in 1962-63.

#### *Expenditure*

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1965, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,412 million, expenditures of \$7,218 million and unexpended balances of \$194 million.

14. Of the \$7,412 million of appropriations available for expenditure in the year, \$3,052 million was provided by continuing statutory authorities and \$4,305 million was granted by Appropriation Acts (Nos. 1, 5, 6, 8, 9, 10 of 1964 and No. 2 of 1965) while \$55 million remained available from continuing 1963-64 appropriations (Department of Labour Votes 32d and 34d).

Of the \$7,218 million of expenditure during the year, \$3,052 million (42%) was incurred under the continuing statutory authorities, with \$4,166 million (58%) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the \$194 million of unexpended balances at the year-end, \$152 million lapsed in compliance with section 35 of the Financial Administration Act and \$42 million of Department of Labour Votes 6b (winter works incentive program), 8b (winter house building incentive program) and 5d (older worker employment and training incentive program) remained available for expenditure in 1965-66 because of the special wording of the appropriations.

15. The lapsed balances of \$152 million represented 3.5% of the \$4,360 million of appropriations under Appropriation Acts. This compares with lapsed balances at the close of the preceding year representing 4.1% of the amounts available in that year and 2.3% of the amounts appropriated in 1962-63 under interim supply Appropriation Acts and by Governor General's special warrants. In the following cases the lapsed balances represented more than 10% of the appropriations under Appropriation Acts:

	Appropriations	Lapsed Balances	
		Amount	%
Emergency Measures Organization.....\$	10,296,000	\$ 2,642,000	26
Labour.....	307,297,000	46,161,000	15
Northern Affairs and National Resources.....	89,073,000	13,192,000	15
National Harbours Board.....	8,853,000	1,276,000	14

16. The following table summarizes the expenditure, by departments, for the fiscal year 1964-65 with the corresponding amounts for the two previous years:

Department	1962-63	1963-64	1964-65
Agriculture.....\$	183,427,000	\$ 225,681,000	\$ 165,724,000
Atomic Energy.....	63,205,000	45,955,000	46,565,000
Canadian Broadcasting Corporation...	80,816,000	87,576,000	87,969,000
Citizenship and Immigration.....	66,115,000	71,545,000	82,358,000
External Affairs.....	85,197,000	97,023,000	131,187,000
Finance.....	1,354,780,000	1,406,435,000	1,588,075,000
Forestry.....	16,175,000	41,816,000	49,754,000
Justice.....	37,021,000	40,996,000	53,529,000
Labour.....	348,292,000	280,384,000	283,725,000
Mines and Technical Surveys.....	71,130,000	67,759,000	75,238,000
National Defence.....	1,571,044,000	1,683,471,000	1,535,635,000
National Health and Welfare.....	1,122,448,000	1,203,855,000	1,297,586,000
National Research Council, including Medical Research Council.....	40,597,000	47,260,000	56,642,000
National Revenue.....	78,725,000	82,996,000	86,909,000
Northern Affairs and National Resources	86,377,000	77,334,000	80,895,000
Post Office.....	189,344,000	206,895,000	210,459,000
Public Works.....	149,735,000	154,843,000	224,510,000
Royal Canadian Mounted Police.....	65,424,000	66,899,000	76,199,000
Trade and Commerce.....	65,768,000	73,584,000	90,043,000
Transport.....	416,019,000	423,258,000	466,948,000
Veterans Affairs.....	335,602,000	333,740,000	353,038,000
Other departments.....	143,101,000	153,096,000	175,287,000
	<u>\$ 6,570,342,000</u>	<u>\$ 6,872,401,000</u>	<u>\$ 7,218,275,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the variation between the departmental totals listed above for 1963-64 and 1964-65.

17. *Agriculture.* The decrease of \$60 million or 27% in expenditure by this Department was more than accounted for by the decrease of \$65 million—from \$122 million to

\$57 million—in the amount appropriated for the net operating loss of the Agricultural Stabilization Board. The \$50 million reduction in valuation of inventories held by this Board at March 31, 1964 had no counterpart in 1964–65. Other variations were increases of \$2 million in outlays on rehabilitation and reclamation projects and \$1 million in the operating requirements of research establishments.

18. *Atomic Energy.* The net increase of \$600,000 under this heading reflects an increase of \$400,000 in contributions, grants and subsidies by the Atomic Energy Control Board, an increase of \$3.4 million in operating expenditure and a decrease of \$3.2 million in the capital expenditure of Atomic Energy of Canada Limited.

19. *Canadian Broadcasting Corporation.* Expenditure in 1964-65 shows an increase of only \$400,000 because the Corporation's capital requirements in 1964-65 were financed by means of loans instead of grants. Had the loans of \$14 million been charged to expenditure on a basis consistent with preceding years, expenditure on behalf of the Corporation would have reflected an increase of \$15 million or 17% over the previous year (see paragraph 55).

20. *Citizenship and Immigration.* The increase of \$11 million or 15% in expenditure by this Department was due mainly to increased expenditure by the Immigration Branch of \$1 million (37%) on transportation and other assistance for immigrants and settlers, and to increased expenditure by the Indian Affairs Branch of \$9 million (16%) as follows: Indian Agencies, \$1 million (15%); welfare, \$3.1 million (23%); education, \$4.4 million (14%); and community employment, \$1.5 million (748%); partly offset by a decrease of \$1 million (27%) for economic development.

21. *External Affairs.* Expenditure by this Department increased by \$34 million (35%) due mainly to an increase of \$33 million (68%) in assistance to other countries.

22. *Finance.* There was an increase of \$182 million or 13% in expenditure by this Department due mainly to: an increase of \$104 million (41%) in subsidies and other payments to provinces, including increased payments of \$91 million (41%) under the Federal-Provincial Fiscal Arrangements Act, 1960-61, c. 58; an increase of \$58 million (6%) in interest paid on public debt; and a charge of \$10 million in respect of a special contribution to the Public Service Superannuation Account.

23. *Forestry.* Expenditure by this Department increased by \$7.9 million or 19%. Expenditure in respect of projects and programs under the Agricultural Rehabilitation and Development Act, together with payments to provinces pursuant to agreements under that Act, increased by \$5.2 million (130%). An increase of \$1 million (11%) in administration, operation and maintenance costs was largely due to salary and wage increases. Construction costs increased by \$1 million (45%) due mainly to the construction of an extension to a research laboratory at Pointe Claire, Que.

24. *Justice.* Of the total increase of \$13 million (31%) in the expenditure of this Department, \$11 million represented an increase of 40% in expenditure on correctional services. This comprised an increase of \$7.7 million (129%) for construction and improvement of institutions and \$3.5 million (16%) for administration, operation and maintenance.



25. *Labour.* The increase of \$3 million or 1.2% in expenditure by this Department was largely accounted for by payments of \$16 million under the winter house building incentive program and \$1 million under the older worker employment and training incentive program, for which there were virtually no comparable expenditures in the preceding year, together with increases of \$16 million (60%) in payments under the municipal winter works incentive program, \$5 million (11%) in the cost of administering the Unemployment Insurance Act, and \$3 million (5%) in the Government's statutory contribution to the Unemployment Insurance Fund, offset by a decrease of \$39 million in payments to the provinces to provide assistance for technical and vocational schools and training programs.

26. *Mines and Technical Surveys.* Expenditure in this Department increased by \$7.5 million or 11%. The significant increases were \$3 million (16%) in connection with the movements of coal (Dominion Coal Board) and \$2 million (29%) in respect of the activities of the Marine Sciences Branch.

27. *National Defence.* The expenditure of \$1,536 million in 1964-65 is the net amount after deducting from gross expenditure \$7 million derived from the sale of surplus materials, supplies and equipment. The expenditure was \$148 million or 9% less than the expenditure in the preceding year. This was mainly accounted for by a decrease in contributions to the Canadian Forces Superannuation Account, \$64 million (47%) and in expenditure of the Royal Canadian Air Force, \$45 million (6%), the Royal Canadian Navy, \$25 million (8%) and the Canadian Army, \$21 million (5%), while an increase was recorded for the Defence Research Board of \$9 million (20%).

28. *National Health and Welfare.* The increase of \$94 million or 8% in expenditure by this Department was due mainly to the introduction, effective September 1, 1964, of the youth allowance program costing \$27 million and increases of \$42 million (11%) in payments pursuant to the Hospital Insurance and Diagnostic Services Act, \$7 million (1.4%) in family allowance payments, \$6 million (15%) in old age assistance payments, \$4 million (14%) in general health grants, \$3 million (16%) in disabled persons allowances and \$2 million (7%) in administration, operation and maintenance costs of medical services.

29. *National Research Council.* The \$9.3 million or 20% increase in expenditure of the Council was due chiefly to an increase of \$6.1 million (35%) in scholarships and grants in aid of research.

30. *National Revenue.* Of the \$3.9 million increase in expenditure by this Department, \$2 million was in the Customs and Excise Division and \$1.9 million in the Taxation Division—an increase of 5% in each case. The increases were due to generally higher administrative costs.

31. *Northern Affairs and National Resources.* Expenditure of this Department increased by \$3.6 million or 5%, although contributions to the provinces to assist in the development of roads leading to resources were less by \$2 million or 25%. National Parks Branch operating costs increased by \$1.2 million (11%) while construction expenditure was up \$1 million (8%). Construction expenditure of the Northern Administration Branch

was down \$2 million (19%) but this was more than offset by an increase of \$3 million (15%) in administrative costs. The Water Resources Branch showed an increase of \$2 million (18%) of which \$1.3 million represented an increase (18%) in contributions to the provinces to assist in the conservation and control of water resources.

32. *Post Office.* The expenditure of this Department increased by approximately \$3.6 million or 2% due largely to increased costs of transporting mail by land and air.

33. *Public Works.* Expenditure by this Department increased by \$70 million (45%). The major item was a net increase of \$35 million (85%) in connection with Trans-Canada Highway construction. There was an increase of \$13 million (17%) for accommodation services, including new costs of nearly \$5 million arising from the transfer of Fort Churchill from the Department of National Defence on April 1, 1964. Harbours and rivers expenditure increased by \$7 million (31%). The transfer of the Northwest Highway System from the Department of National Defence on April 1, 1964 resulted in additional costs of \$8.5 million. Expenses in connection with the construction of an ice control structure in the Montreal harbour area increased to nearly \$6 million as compared with less than \$500,000 in the preceding year.

34. *Royal Canadian Mounted Police.* Expenditure of the Force increased by \$9.3 million or 14%. Of this amount, approximately \$7 million was due to increases in pay and pension benefits, while the balance resulted from general increases in operating costs.

35. *Trade and Commerce.* Expenditure by this Department increased by \$16 million or 22%. Payments to the Canadian Corporation for the 1967 World Exhibition totalled \$18.6 million compared with \$1.1 million in the preceding year. Expenditure by the Dominion Bureau of Statistics increased by \$1.6 million (14%) mainly due to increases in staff, reclassifications and annual salary increments. The Canadian Government Travel Bureau accelerated its program to attract tourists to Canada and the resulting increases in staff and publicity material accounted for most of the \$1 million (27%) increase in expenditure. The Canadian Government participation in the Canadian Universal and International Exhibition, Montreal, 1967 entered the firm planning stage during 1964-65 resulting in increased expenditure of \$680,000 (438%). Payments to the Canadian Wheat Board with respect to carrying costs of temporary wheat reserves decreased by \$5.5 million (14%) to \$34 million.

36. *Transport.* The expenditure of \$467 million by this Department represented an increase of \$44 million or 10%. This was largely accounted for by payments of \$27 million to The St. Lawrence Seaway Authority in reimbursement of the accumulated Welland Canal deficit incurred in the calendar years 1959 to 1964, \$6 million to the National Harbours Board for outlay relating to the Canadian Universal and International Exhibition, Montreal, 1967, and \$9 million—from \$1 million to \$10 million—for the construction of coastal ferries, docks and terminals. Other significant increases were \$3 million—from \$12 million to \$15 million—in payments to the Canadian National Railways in respect of the operating deficits of coastal ferries; \$3 million—from \$21 million to \$24 million—in railway construction subsidies; \$10 million—from \$121 million to \$131 million—in air services, mainly in respect of administration, operation and maintenance of the various facilities;



and \$2 million in refunds of amounts previously credited to revenue in respect of the remission of air route facility fees. Offsetting these increases were reductions of \$4 million (10%) in the deficit of the Canadian National Railways; \$8 million (20%) in capital subsidies for the construction of commercial and fishing vessels; \$3 million—from \$4 million to \$1 million—in respect of the termination of the collection of tolls on Victoria Bridge, Montreal; and \$3 million of interest on the cost of constructing the railway diversion on the Bridge in the preceding year for which there was no comparable expenditure in 1964-65.

37. *Veterans Affairs.* The expenditure of \$353 million by this Department was \$19 million or 6% higher than in the preceding year. This increase was largely accounted for by increases of \$10 million (12%) in war veterans allowances and assistance, \$7 million (4%) in pensions for disability and death and \$1 million (85%) in expenditure for hospital construction, improvements and equipment. The increases in allowances and pensions were mainly the result of higher rates put into effect on September 1, 1964.

38. *Other departments.* Expenditure by the "Other departments" totalled \$175 million, an increase of \$22 million or 14%. An increase of \$4 million in expenditure of the Atlantic Development Board included disbursements of \$3.6 million from the newly-established Atlantic Development Fund. Expenditure by the Department of Industry increased by \$4.1 million (21%) due to an increase of \$2.6 million (378%) in administrative costs and an increase of \$1.5 million (8%) in costs of sustaining technological capability in Canadian industry. An increase of \$14 million (190%) in expenditure by the Department of the Secretary of State was mainly due to a special grant of \$10 million to the Canada Council together with an increase of \$3.3 million (86%) in expenditure by the Centennial Commission and transfers to the Centennial of Confederation Fund. The largest decrease was one of \$11 million in expenditure by the Office of the Chief Electoral Officer.

### *Revenue*

39. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1965, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$6,367 million of the total revenue of \$7,180 million.

40. The following table summarizes the revenue, by principal sources, for the past three years:

	1962-63	1963-64	1964-65
Tax revenues—			
Personal income tax.....	\$ 1,744,626,000	\$ 1,865,074,000	\$ 2,103,282,000
Corporation income tax.....	1,182,837,000	1,258,957,000	1,523,815,000
Income tax on dividends, interest, etc., going abroad.....	129,137,000	124,500,000	143,718,000
Sales tax.....	805,971,000	946,055,000	1,204,610,000
Other excise taxes.....	260,378,000	273,415,000	269,082,000
Customs duties.....	644,992,000	581,442,000	622,102,000
Excise duties.....	381,866,000	393,326,000	411,402,000
Estate tax.....	87,143,000	90,671,000	88,625,000
Other tax revenues.....	27,000	92,000	140,000
	5,236,977,000	5,533,532,000	6,366,776,000

	1962-63	1963-64	1964-65
Non-tax revenues—			
Return on investments.....	311,861,000	366,413,000	422,694,000
Net postal revenue.....	192,772,000	200,717,000	230,436,000
Other non-tax revenues.....	137,099,000	152,542,000	160,404,000
	<u>641,732,000</u>	<u>719,672,000</u>	<u>813,534,000</u>
	<u>\$ 5,878,709,000</u>	<u>\$ 6,253,204,000</u>	<u>\$ 7,180,310,000</u>

41. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to \$960 million in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 151.

42. *Income taxes.* Income tax collections for 1964-65 show a net increase of \$522 million over those of the previous year, \$238 million from individuals, \$265 million from corporations and \$19 million from non-residents.

The increases are due principally to the higher levels of income during the year and to the effect during the year of legislation passed in 1963 which moved forward the payment dates for corporation income tax.

43. *Sales tax.* The increase of \$259 million in sales tax over 1963-64 is due in part to the imposition in 1963 of a sales tax (4% effective June 14, 1963, increased to 8% effective April 1, 1964) on building materials, production machinery and equipment. A further 3% tax on these items was levied under the Old Age Security Act effective January 1, 1965.

44. *Other excise taxes.* The following is a summary of excise taxes, other than sales tax, collected during the year ended March 31, 1965, with comparable amounts for the two previous years:

	1962-63	1963-64	1964-65
Cigarettes.....	\$ 195,313,000	\$ 200,211,000	\$ 197,495,000
Manufactured tobacco.....	19,123,000	23,460,000	17,149,000
Phonographs, radios and tubes.....	9,875,000	11,432,000	13,082,000
Toilet articles and preparations.....	10,142,000	11,126,000	12,791,000
Television sets and tubes.....	10,059,000	10,578,000	10,440,000
Jewellery, clocks, watches, chinaware, etc....	5,793,000	6,353,000	6,864,000
Wines.....	3,727,000	3,814,000	4,092,000
Cigars.....	3,372,000	3,267,000	3,700,000
Sundry excise taxes.....	3,350,000	3,505,000	3,816,000
Refunds and drawbacks.....	-376,000	-331,000	-347,000
	<u>\$ 260,378,000</u>	<u>\$ 273,415,000</u>	<u>\$ 269,082,000</u>

45. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1965, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1962-63	1963-64	1964-65
Cigarettes.....	\$ 157,049,000	\$ 157,054,000	\$ 168,797,000
Spirits.....	122,099,000	129,406,000	134,716,000
Beer.....	98,147,000	102,907,000	105,386,000
Other excise duties.....	9,463,000	8,623,000	8,403,000
Refunds and drawbacks.....	-4,892,000	-4,664,000	-5,900,000
	<u>\$ 381,866,000</u>	<u>\$ 393,326,000</u>	<u>\$ 411,402,000</u>

46. *Return on investments.* The following is a listing of the revenue from the various investments in 1964-65, along with the comparable figures for the two previous years:

	1962-63	1963-64	1964-65
Bank of Canada.....	\$ 96,680,000	\$ 116,386,000	\$ 128,238,000
Central Mortgage and Housing Corporation..	79,925,000	85,525,000	93,349,000
Exchange Fund Account.....	35,227,000	62,594,000	63,552,000
The St. Lawrence Seaway Authority.....	—	2,568,000	43,065,000
Deposits with chartered banks.....	14,395,000	13,702,000	19,639,000
Farm Credit Corporation.....	8,482,000	10,869,000	13,934,000
Canadian National Railways.....	3,824,000	13,018,000	11,601,000
Veterans' Land Act loans.....	6,549,000	7,373,000	8,308,000
Securities Investment Account.....	12,351,000	4,059,000	6,504,000
Loans to National Governments.....	29,272,000	26,301,000	6,383,000
Polymer Corporation Limited.....	3,000,000	3,500,000	4,000,000
National Harbours Board.....	3,631,000	3,475,000	3,425,000
Export Credits Insurance Corporation.....	578,000	1,061,000	3,047,000
National Capital Commission.....	1,776,000	2,319,000	2,858,000
Canadian Overseas Telecommunication Corporation.....	1,971,000	2,586,000	2,706,000
Northern Canada Power Commission.....	1,696,000	1,648,000	2,105,000
Eldorado Mining and Refining Limited.....	3,000,000	2,000,000	1,500,000
Special United States of America securities—			
Columbia River Treaty.....	—	—	1,150,000
Northern Ontario Pipe Line Crown Corporation.....	4,087,000	1,583,000	—
Other loans and investments.....	5,417,000	5,846,000	7,330,000
	<u>\$ 311,861,000</u>	<u>\$ 366,413,000</u>	<u>\$ 422,694,000</u>

47. The amounts shown for revenue from investment in the Bank of Canada represent annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c.13.

Revenue from Central Mortgage and Housing Corporation for 1964-65 comprised \$89,711,000 (\$80,297,000 in 1963-64) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$3,638,000 (\$5,228,000 in 1963-64) representing the profit for the year ended December 31, 1964 which was transferred to the Receiver General as required by section 30 of the Act.



Revenue from The St. Lawrence Seaway Authority comprised \$43,062,000 paid on account of interest deferred in the years 1959, 1961 and 1962 and current interest of \$3,000. The payment of this interest was possible largely by reason of receipt of \$27,073,000 from Department of Transport Vote 107d to reimburse the Authority in respect of the accumulated Welland Canal deficit for the years 1959 to 1964. An additional \$13,200,000 was available from the proceeds of loans to cover capital expenditure financed initially from operating funds.

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, is earned on deposits with chartered banks in excess of an aggregate of \$100 million.

Interest earned on temporary holdings of securities of Canada in the Securities Investment Account totalled \$5,032,000. A profit of \$886,000 was realized on securities sold and a profit of \$586,000 resulted from the cancellation of certain securities held in the Account.

The reduction of \$19.9 million in interest on loans to National Governments is almost entirely due to the Government of the United Kingdom exercising its option to defer the payment of interest due December 31, 1964 on loans under the United Kingdom Financial Agreement Act 1946.

The increase of \$2 million in revenue from the Export Credits Insurance Corporation results from a substantial increase in advances to enable the Corporation to provide long-term financing for export sales of capital goods.

Revenue of \$1,150,000 on special United States of America securities represents interest to November 1, 1964 at from 4% to 4¼% on an investment of \$219.5 million in medium term non-marketable securities of the United States Government acquired on September 16, 1964.

Loans to the Northern Ontario Pipe Line Crown Corporation were repaid in full in 1963-64.

48. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the last three years:

	1962-63	1963-64	1964-65
Gross postal revenue. ....	\$ 222,300,000	\$ 235,808,000	\$ 263,704,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices. ....	25,239,000	29,936,000	28,828,000
Other disbursements. ....	4,289,000	5,155,000	4,440,000
	<u>29,528,000</u>	<u>35,091,000</u>	<u>33,268,000</u>
Net postal revenue. ....	\$ 192,772,000	\$ 200,717,000	\$ 230,436,000

The amounts shown for "Other disbursements" mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

49. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 40 for "Other non-tax revenues" for 1964-65, with comparable figures for the two previous years, is given in the following table:

	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>
Services and service fees.....	\$ 46,186,000	\$ 51,321,000	\$ 60,924,000
Proceeds from sales.....	26,531,000	28,445,000	24,250,000
Privileges, licences and permits.....	25,008,000	27,172,000	30,825,000
Refunds of previous years' expenditure.....	22,392,000	26,839,000	20,546,000
Bullion and coinage.....	9,404,000	9,717,000	12,299,000
Miscellaneous.....	7,578,000	9,048,000	11,560,000
	<u>\$ 137,099,000</u>	<u>\$ 152,542,000</u>	<u>\$ 160,404,000</u>

### Comments on Expenditure and Revenue Transactions

50. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review are brought to the attention of the House in this Report. Several matters of a similar nature relating to the expenditure and revenue transactions of the Crown corporations are also included in this section of the Report.

51. *Revised vote pattern.* In our 1964 Report (Appendix 1, item 6) reference was made to the Third Report 1963 of the Public Accounts Committee tabled in the House on December 19, 1963 in which it recommended the

adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

The vote pattern actually used in the 1964-65 Estimates differed in certain instances from the pattern which had been considered by the Public Accounts Committee. Three of the more important variations were as follows:

1. While the revised vote pattern indicated that there would continue to be separate appropriations for "Construction or Acquisition of Buildings, Works, Land and Equipment, etc.", these appropriations were combined in a number of instances with the related Administration or Operation and Maintenance votes where the amount involved was small in relation to the amount of those votes.

An exception was the Department of National Defence where the Construction votes were combined with the Operation and Maintenance votes for each of the three Services although more than a relatively small amount was involved. This made possible transfers during the year, with the approval of the Treasury Board, between the

Operation and Maintenance allotments and the Construction allotments in Votes 15, 20 and 25 of amounts of \$40,000, \$850,000 and \$5,675,000 in order to utilize available funds in these allotments.

2. The following provision was added to the Operation and Maintenance and Construction votes of the three Services and to the Defence Research Board Vote 30, for Operation and Maintenance, and Vote 35 for Construction:

including authority, notwithstanding the Financial Administration Act and section 11 of the Surplus Crown Assets Act and subject to the approval of the Treasury Board, to spend revenues received from the sale of surplus materials, supplies and equipment.

Under this provision the proceeds from sales by Crown Assets Disposal Corporation during the year of materials declared surplus by the Department amounting to \$6,959,000 were credited to these appropriations thus supplementing the amounts included in the Estimates.

3. Vote 40 of the Department of Public Works under the heading of "Roads, Bridges and Other Engineering Services" in the revised vote pattern provided for "Construction or Acquisition of Buildings, Works, Land and Equipment as detailed in the Estimates". However, in the 1964-65 Estimates the following provision was added:

the amount within the vote to be expended on individually listed projects may be increased or decreased subject to the approval of Treasury Board.

This provision made possible the transfer of \$450,000 of the \$500,000 which had been included in the appropriation "Towards federal share of the cost of City of Ottawa projects" to another project, "Towards the cost of planning a causeway and associated structures across Northumberland Strait".

The revised vote pattern made possible a number of transfers of funds between services with the Treasury Board's approval, which would not have been possible under the previous vote pattern. Examples of these are:

1. *Department of Northern Affairs and National Resources*

- (a) An amount of \$55,000 was transferred within Vote 15 to National Parks and Historic Sites and Monuments of which \$40,000 was made available from Branch Administration and \$15,000 from Canadian Wildlife Service.
- (b) An amount of \$100,000 was transferred within Vote 20 (the Construction vote associated with Vote 15) to National Parks and Historic Sites and Monuments from Canadian Wildlife Service.
- (c) In Vote 30 for Water Resources—Administration, Operation and Maintenance, etc., an amount of \$100,000 was transferred to the Water Resources Branch out of an amount of \$950,000 which had been included in Supplementary Estimates (A) for "Nelson River—Expenditures in connection with investigations, etc."

2. *Department of Public Works*

In Vote 15 an amount of \$750,000 was included in the details of the Estimates for "Miscellaneous works not otherwise provided for, including expenditures on works on other than federal property". By transfers from other items in the details of the Estimates which provided for construction in the various provinces, an additional amount of \$3,150,000 was made available for miscellaneous works.



### 3. *Department of Transport*

- (a) In Vote 10 for the "Construction or Acquisition of Buildings, Works, Land, Vessels and Equipment including payments to Provinces or Municipalities as contributions towards construction done by those bodies", an amount of \$3,779,000 was included for canals. By means of transfers of approximately equal amounts from special provisions for the St. Lawrence and Saguenay Rivers Ship Channels and the Canadian Coast Guard, this provision for canals was increased by a further \$2,127,000.
- (b) Within Vote 20 which provided for "Railways and Steamships—Construction or Acquisition of Buildings, Works and Land, Dock and Terminal Facilities, and of Vessels and Related Equipment, etc." an amount of \$500,000 was transferred from the provision for Nova Scotia-East Coast, Newfoundland, Terminals Development to Ferry Vessels and Equipment.

52. *Prairie Farm Emergency Fund.* The deficit in the operations of this Fund during the year was \$367,000 compared with deficits of \$1,073,000 and \$7,295,000 in 1964 and 1963.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act, R.S., c.213. Under the Act a levy of 1% is imposed on the price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which totalled \$10,238,000 during the past year, are credited to the account. Awards are made to eligible farmers in areas affected by crop failure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During the year awards amounted to \$10,605,000 and the \$367,000 by which these exceeded the revenue from the 1% levy was charged to Department of Agriculture Vote 75d.

The Act provides assistance to farmers where a general crop failure has occurred. The minimum area that can normally be considered a general crop failure area is an entire township, but section 6(b) provides that a rectangular block of sections, having an area of not less than one-third of a township, can be declared eligible for an award as though it were a complete township. Under section 6(a) additional sections of land that lie alongside of the boundary of an eligible township can be added to the township. It was the opinion of the Deputy Minister of Justice that a block of land which is eligible for an award under section 6(b) cannot be regarded as an eligible township for the purposes of making other sections of land having a side that lies along its boundary eligible for an award under section 6(a). Nevertheless, during the period December 1, 1964 to March 31, 1965 some \$909,000 was paid to farmers in respect of crop failures on land purportedly under section 6(a) by reason of being alongside of a rectangular block of land eligible under section 6(b). These payments were regularized by a dollar vote included in Appropriation Act No. 2, 1965, assented to April 3, 1965. The vote in question is Department of Agriculture Vote 70d which declared that any block of land eligible for an award under section 6(b) was an eligible township for purposes of section 6(a) and ratified any previous awards made on this basis.

No awards are made in respect of sections of land where the average yield of wheat is 12 bushels or more per acre. However, a farmer occupying part of a section of land is entitled to receive an award even though the yield on his land exceeds 12 bushels per acre if the other occupant of this particular section has a yield low enough to bring the average yield for the section below 12 bushels per acre. Three cases were observed where farmers were



paid \$310, \$135 and \$44 where their yields were 13.5, 14.8 and 21 bushels per acre respectively. In another township, which was eligible on the basis of wheat being the predominant crop, two cases were observed where awards were made to farmers who had very successful harvests of coarse grains. One farmer harvested 2,700 bushels of oats on 100 acres and the other 3,600 bushels of rye on 180 acres. Converted to a wheat-yield basis, the yield would be 13.5 and 26.6 bushels per acre. These farmers were paid awards of \$315 and \$400 respectively.

Inspections of areas where general crop failures have occurred are made to secure information from farmers to determine the actual yield of grain on each parcel of land. This is recorded on a "cultivated acreage report" which is signed by the farmer and the inspector. Two methods of verifying the information given by a farmer are measurement of his grain bins and examination of his Wheat Board permit book. Inspectors are required to measure bins and examine permit books or explain why they have not done so on the cultivated acreage reports. Our limited test revealed that Wheat Board permits were not examined in all cases and the bins were not always measured. However, measurement of the bins does not assure accuracy of the reports because wheat grown in one year may be stored with wheat produced in a previous year or in bins located outside the crop failure area. Furthermore, it is frequently impossible to examine storage bins located in remote locations when country roads are practically impassable due to inclement weather. As a result the inspector is forced to rely on information given him by the farmer.

During the year a special branch was set up, with headquarters in Regina, to make spot checks of selected areas. One of the reports of this special branch concerned a suspected area in Alberta. The investigator reported that there appeared to be no doubt that falsification of cultivated acreage reports was the rule rather than the exception and that the elevator agents were also involved. Quantities of wheat on hand, stated to have been produced in the previous year, did not agree with grades of that year. Sales of grain were made in locations other than the location shown on the permit books and there was also a strong indication that considerable wheat had been sold to a feed processing plant. There appeared to be no doubt that considerably more wheat had been produced in 1964 than had been shown on the cultivated acreage reports. Eleven townships were involved. No payments had been made in the area and the municipalities had been requested to withdraw applications for awards.

The Commission of Inquiry established by Order in Council on December 21, 1963 to inquire into payments made under the Act, in its report of June 10, 1964, observed that the present system of processing cultivated acreage reports through the employment of a large number of inspectors was both unnecessary and expensive and did not assure accuracy. The Commission noted that new permit books are issued at the end of each crop year and recommended that, as a condition precedent to a farmer having a right to secure an award, he be required to set forth in his permit book, at the time he receives it, a statement of grain on his farm. The Commission also recommended that all farmers in an area affected be required to complete cultivated acreage reports when a municipality makes an application for assistance, so that it would not be necessary for inspectors to secure these reports. In our opinion these two recommendations require implementation.

Last year we noted that the Board of Review, established under the Act to decide questions concerning eligibility for awards and other relevant matters, did not maintain any minutes and, as a result, difficulty was experienced in verifying certain awards under the Act. This condition still exists.

Since inception of the Act three townships have received crop failure assistance in 24 out of 26 crop years and 30 surrounding townships were eligible in 21 years of the same period. We again recommend that consideration be given to the elimination from eligibility for awards, of marginal land on which crop failures continuously occur from year to year, and also to the repeal of section 7 of the Act which requires every award to be paid in the month of December. It is impossible to comply with this section of the Act as most of the awards cannot be paid until January or February.

53. *Loss arising from delay in acceptance of offer to purchase land.* Early in 1962 the Prairie Farm Rehabilitation Administration opened negotiations for the purchase of certain properties required in connection with the construction of a water reservoir in Saskatchewan. One of the owners concerned offered to accept the sum of \$10,750, in full and final settlement for his property, on the condition that payment be made on or before October 31, 1962.

The offer was forwarded to P.F.R.A. headquarters in Regina on May 29, 1962 and was sent to Ottawa on July 31, 1962. Order in Council P.C. 1962-2/1336 of September 27, 1962 authorized acquisition of the property involved but it was not until late in October that a solicitor in the Province of Saskatchewan was appointed to handle the conveyance. On November 3, 1962 solicitors for the landowner advised that, because the condition set out in the Offer to Sell as to time of payment had not been complied with, the offer had been withdrawn.

Since the land in question was essential to the water storage project, the Department of Agriculture undertook expropriation proceedings in 1964. Settlement was then made with the landowner for \$16,000, an increase of \$5,250 over the amount agreed upon prior to withdrawal of the original offer.

54. *Loss on advances for construction of potato warehouses.* Order in Council P.C. 2017 of April 20, 1950 authorizes the Minister of Agriculture to grant financial assistance to co-operative associations for the construction of potato warehouses. The regulations governing the grants require co-operative associations applying for assistance to assume not less than one-quarter of the cost of construction, the province to pay the remainder. Following construction of a warehouse, the federal Government reimburses one-half of the amount paid by a province. One-half of the subsidy received by a co-operative association is required to be repaid by a volume levy on all potatoes and other produce handled by the warehouse.

It has not been the practice to protect the recoverable portion of a subsidy by means of a mortgage on the warehouse and two cases were noted where amounts required to be repaid by co-operative associations will not be recovered.

In 1960 the Province of Saskatchewan paid \$75,728 to a co-operative association for construction of a potato warehouse and in 1962 the federal government paid \$37,864 to the Province as its share of the subsidy.

The manager of this co-operative association was also the manager of a nearby family-owned potato chipping plant. A member of the family was on the board of directors of the co-operative association and it soon became apparent that the warehouse was being run solely for the needs of the chipping plant. In 1960, 1.5 million pounds of potatoes in storage were not offered for sale even though wholesalers in the three northern cities of the Province were buying potatoes in Alberta and Manitoba. It was the opinion of the trade that all the potatoes could have been sold on the commercial market. Some of the potatoes were stored in a special insulated bin and, in order to condition them for chipping, the temperature in this bin was raised. However, the heat loss from this bin penetrated the other bins of the warehouse. Advice from many sources on the necessity of marketing the potatoes was ignored and \$50,000 worth of potatoes were allowed to rot in the warehouse.

The chipping plant did not prosper and went into liquidation owing the co-operative association some \$12,000. To finance its operations the co-operative association then borrowed \$40,000 from a loan company and gave as security a first mortgage on the potato warehouse.

The losses incurred on the 1960 potato crop deterred growers and by 1962 it was evident that the warehouse could not operate economically. In 1964 the mortgagee was allowed to sell the warehouse. No amount was received on account of the levy on the volume of the produce handled while the warehouse was in operation and it now appears that neither the provincial nor federal governments will recover any part of the \$18,932 due to each.

In the second case, a co-operative association received \$26,930 from the Province of British Columbia to assist in the construction of a potato warehouse and in 1960 the federal Government reimbursed the Province one-half of the subsidy which it had paid. After a year's operation the co-operative association was dissolved while still owing \$2,890 to the contractor who had built the warehouse and a further sum of \$3,178 to a member who had advanced this sum to the co-operative association. Both amounts were secured by mortgages and when foreclosure proceedings were commenced the Province of British Columbia paid off the mortgages and rented the warehouse. The provincial Government is presently negotiating the sale of the warehouse for \$10,000 and, after deducting the \$6,068 paid on the mortgages, will divide the remainder equally between the two governments. The federal Government will then have received only \$3,497 and therefore will lose \$3,236 of the recoverable portion of the subsidy.

In our opinion, consideration should be given to taking security, in the form of a first mortgage on each warehouse or in some other form, for that portion of the subsidy recoverable by the provincial and federal governments.

55. *Effect of change in method of financing capital expenditures of the Canadian Broadcasting Corporation.* Paragraph 187 in the Crown Corporations section of this Report includes comments regarding the operations of the Canadian Broadcasting Corporation.



As required by section 35(1) of the Broadcasting Act, 1958, c.22, the Canadian Broadcasting Corporation submits a capital budget and an operating budget for each financial year for approval by the Governor in Council on the recommendation of the responsible Minister and the Minister of Finance. Each year, from the proclamation of the Act until March 31, 1964, funds to meet each of these budgets have been provided by two separate grants under Appropriation Acts, both charged to budgetary expenditure.

The funds required by the Corporation to meet its capital expenditure during the year ended March 31, 1965 were provided by means of loans from the Government instead of grants. The relative vote of Appropriation Act No. 10, 1964 provided for:

Loans to the Canadian Broadcasting Corporation for the purpose of capital expenditures, subject to terms and conditions prescribed by the Governor in Council—\$14,250,000.

These loans, repayable by the Corporation in equal annual instalments over the next twenty years, with interest payable at rates of  $5\frac{1}{4}\%$  and  $5\frac{3}{8}\%$  per annum, are included in "Loans to and investments in Crown corporations" appearing as an asset item on the Statement of Assets and Liabilities of Canada (see paragraph 149). As a consequence, the Statement of Expenditure and Revenue of Canada was not prepared on a basis consistent with that of the preceding year and the resultant deficit of \$37,965,000 shown on that Statement has been under-stated to the extent of the capital expenditures of \$14,250,000.

This procedure is a contradiction of the long-standing principle of the Department of Finance that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities on the Statement of Assets and Liabilities with costs of capital works being charged to expenditure at the time of acquisition or construction. This subject is dealt with further in paragraph 167 under the Comments on Assets and Liabilities.

The Canadian Broadcasting Corporation is not in a position to repay either principal or interest on loans such as these unless it is placed in funds for the purpose. Consequently, the grant of \$85,869,000, provided by Appropriation Act No. 10, 1964 to cover the net operating requirements of the Corporation included an amount of \$374,000 to enable the Corporation to pay the interest on the loans. Receipt of this interest by the Department of Finance is recorded under the heading of "Non-tax Revenues—Return on Investments". This procedure has the effect of increasing the recorded amount of both the revenues and expenditures of Canada in violation of generally accepted accounting principles.

The 1965-66 Estimates tabled on March 22, 1965, but not yet approved by Parliament, include a grant of \$97,044,000 "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service". This amount includes the first principal repayment of \$710,000 and interest of \$1,170,000 on the loans made in 1964-65.

The wording of the Vote does not disclose this information nor is it provided in the Details of Services.

56. *Salaries and wages paid for work not performed.* In the course of the audit of the payrolls of the Canadian Broadcasting Corporation we noted that program costs included payments to employees for scheduled hours during daily or weekly tours of duty which were in excess of the actual hours of attendance.



All payments were in accordance with the articles of the various union agreements and our tests did not reveal any discrepancies in their application.

In order to determine the extent of these costs, a special study was made of the pay-rolls of the Toronto Area and English Network for the period November 23 to December 20, 1964 and of the Quebec Region and French Network for the period February 22 to March 21, 1965.

Our study for the selected four-week periods disclosed the amount of scheduled time in excess of actual, as follows:

	Hours	Com- pensation
Toronto Area and English Network.....	5,614	\$ 14,862
Quebec Region and French Network.....	7,950	20,423
	13,564	\$ 35,285

Other tests have served to confirm that this situation prevailed throughout the year. On the basis indicated by our test examinations, payment of salaries and wages for work not performed would amount to approximately \$450,000 for the year.

The majority of the employees receiving this compensation were credited for hours not worked during each of the four weeks included in our study. Figures for three of the employee classes selected for the test, comprising some 636 employees receiving \$23,379, or 66% of the payments, indicated that the additional compensation averaged \$36 for the period. The Corporation has advised us that it regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast program production.

Since the procedure followed results in payment for work not performed, it is, in our opinion, non-productive expenditure of the type which the Public Accounts Committee has requested be brought to the attention of the House.

57. *Financing of the 1967 World Exhibition.* Paragraph 189 in the Crown Corporations section of this Report includes comments on the operations of the Canadian Corporation for the 1967 World Exhibition during the past year.

As explained in that paragraph, the existing legislation provides that grants provided by Canada, the Province of Quebec and the City of Montreal must not exceed \$20 million, \$15 million and \$5 million, respectively, a total of \$40 million. The federal contribution is limited to \$20 million under section 11 of the Canadian Corporation for the 1967 World Exhibition Act.

The present revised overall plan approved by Canada and the Province of Quebec, as provided for under section 10 of the Act, estimates total costs of \$250,704,000 for the Exhibition with revenues, salvage and asset recoveries estimated at \$189,123,000. As this forward estimate indicates a net cost or deficit of \$61,581,000 at the close of the Exhibition, after allowing an estimated \$56,039,000 for the value of the assets remaining at that time, it follows that the Corporation's total requirement by way of grants is \$117,620,000 based

on present estimates. Because of the limits imposed by the present legislation of Canada and the Province of Quebec as to the amount of the grants which may be made to the Corporation, changes will be required in this legislation before these additional substantial grants may be made. Unless these additional grants are provided, this total requirement (less \$40,000,000 already granted) will have been financed by loans and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Fair will not have the cash resources necessary for payment of the indebtedness.

In addition to the federal contribution of \$20 million to the Corporation, subsection (5) of section 12 of this Act provides for temporary borrowings from the federal Government but the aggregate of all amounts loaned under this subsection and outstanding at any time shall not exceed \$1 million.

Subsections (1) to (4) of section 12 of the federal Act make provision for the Corporation to issue securities guaranteed by Canada and Quebec. Following the close of the year, the Corporation made arrangements to issue such securities and Canada proposes to purchase and hold them to the extent of \$80 million, as evidenced by Department of Finance Vote L26b of Supplementary Estimates (B) which were submitted to the House on June 22, 1965. Although this vote was not passed by Parliament before it recessed on June 30, 1965, seven-twelfths of the amount was approved by Appropriation Act No. 6, 1965 assented to on that date.

The restrictive sections of the Canadian Corporation for the 1967 World Exhibition Act, namely sections 11 and 12 outlined above, cause us to question whether Parliament originally intended that Canada should purchase securities of the Corporation.

58. *Questionable charges to Vote 15 of the Department of Citizenship and Immigration.* For several years this Office has been concerned with whether welfare and educational expenditures on non-Indians, other than on a recoverable basis, were within the ambit of the Indian Affairs Branch votes of the Department of Citizenship and Immigration. In 1961 we referred the matter to the Secretary of the Treasury Board and certain restrictive words were dropped from the text of the welfare vote, as they had been previously from the vote for education of Indians. We suggested at the time that all doubt be removed by modifying the text of each vote to indicate clearly that certain categories of non-Indians were included. This suggestion was not followed.

In conformity with the revised vote pattern introduced in the Main Estimates 1964-65, a number of vote texts of the Indian Affairs Branch including administration, Indian agencies, welfare, economic development and education were consolidated in one vote heading which reads:

Vote 15—Administration, Operation and Maintenance including expenditures on works on other than federal property, grants and contributions as detailed in the Estimates, recoverable expenditures under agreements entered into with the approval of the Governor in Council with the Governments of the Provinces and Territories and with local School Boards in respect of social assistance to persons residing on Indian reserves other than Indians and the education in Indian schools of children other than Indian children, and to authorize the Minister of Citizenship and Immigration to provide, in respect of Indian com-

mercial activities, for the instruction and supervision of Indians, the furnishing of materials, the purchase of finished goods and, notwithstanding any other Act, the sale of such finished goods.

In 1964-65 this vote was charged, like the votes of previous years, with non-recoverable welfare and educational expenditures on non-Indians residing on reserves.

In our opinion, the only permissible expenditure on non-Indians authorized by the vote is expenditure specifically provided for in the vote, that is, expenditure made on a recoverable basis under agreements with the governments of provinces and territories and with local school boards.

59. *Disposal of surplus plant.* In March 1964 the Minister of Defence Production was authorized to solicit and negotiate bids for the sale of three plants operated by Canadian Arsenals Limited. Bids were invited for each of the plants, the prospective purchaser being required to demonstrate a capability to manage manufacturing facilities involving military equipment, state his intention to retain the defined military explosive manufacturing capabilities and indicate his proposed use of the remaining plant capacity. Only the DeSalaberry plant was sold.

Only one bid was received for this plant which is located on 1,094 acres fronting on the St. Lawrence River near Valleyfield, Que. The original cost of the plant's land, buildings, machinery and equipment was \$18,210,000. Over the past six years its operations have resulted in losses averaging \$1.5 million annually, exclusive of any charge for depreciation of its buildings and equipment, and departmental officials estimated that future operating losses would be about \$1 million annually.

In May 1964 an independent appraiser advised Crown Assets Disposal Corporation that a fair market value of the property, exclusive of machinery and equipment, would be \$6,492,000, subject to the qualification that if any use of the property, other than the use to which it is now put, were to be contemplated by a purchaser, then the value would be but a fraction of the figure mentioned because most of the buildings are one-purpose structures. At the same time machinery and equipment in the plant were separately evaluated on an estimated recovery basis by officials of Canadian Arsenals Limited, Department of Defence Production and Crown Assets Disposal Corporation at \$1,405,000. This placed the total appraised fair market value of the land, buildings, machinery and equipment at \$7,897,000.

The company that had submitted the bid planned to use the facilities for manufacturing propellants and military high explosives and to develop suitable propellants for commercial ammunition. The company also proposed to investigate the commercial application of that part of the facilities designed for the production of nitrocellulose and nitric acid but did not contemplate that its foreseeable production would ever fully utilize the plant capacity available.

Taking into consideration the appraiser's qualification in valuing the property, the fact that the company could not utilize the full plant capacity and that a major portion of the plant could not be commercially utilized without substantial conversion, it was concluded that the fair market value of the land, buildings, machinery and equipment should be reduced from \$7,897,000 to \$4,137,000.



The company offered to purchase the land, buildings, machinery and equipment for \$1 million and to pay \$757,000 for the active inventory on the premises. It also indicated that, as a condition of sale, it was prepared to retain the skills and capabilities of the plant to produce defence supplies for a period of ten years without cost to the Crown and to retain items of equipment and special tooling essential to such production and to accord first priority to defence contracts. The company's offer was accepted and the sale completed on this basis on March 31, 1965.

60. *Defence Production Revolving Fund.* Section 16 of the Defence Production Act, R.S., c.62, established the Defence Production Revolving Fund in an amount not to exceed \$100 million for the purpose of acquiring, storing, maintaining, and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The section provides that no amount may be credited to the revolving fund to reimburse the fund for any loss sustained except pursuant to an appropriation by Parliament for that purpose. However, the Act is silent with respect to the treatment of any surplus.

The Financial Administration Act requires a surplus in a revolving fund to be "transferred from the revolving fund as revenue" and it also includes a provision similar to that appearing in the Defence Production Act that "no amount may be credited to the revolving fund to meet the deficiency except with the authority of Parliament". These directions with regard to treatment of surpluses and deficits seem to us to clearly indicate that Parliament wishes to be made aware of losses sustained through the operations of revolving funds and does not intend that any such losses be absorbed by a previously accumulated surplus.

In 1956 there was a surplus of \$470,000 in the Defence Production Revolving Fund and the Auditor General's Report for that year drew attention to this surplus because it was believed to be the intent of Parliament that all revolving funds surrender surpluses at each year-end.

No action was taken with regard to the surplus reported in 1956 and by March 31, 1965 there was an accumulated surplus of \$1,818,000 in the Defence Production Revolving Fund comprising:

Interest received under aircraft sales contracts.....	\$ 1,111,000
Interest received on working capital advances.....	14,000
Net profit on strategic material inventory transactions:	
Disposal completed.....	730,000
In process of disposal.....	1,000
	<hr/>
	1,856,000
Less: Warehousing and other expenses relating to inventories still on hand.....	38,000
	<hr/>
	\$ 1,818,000
	<hr/>

In the absence of specific provisions in the Defence Production Act with respect to the treatment of surplus, departmental officers have taken the view that surplus, whether derived from interest earned or profit on a strategic material inventory that has been completely disposed of, should be retained in the Fund as protection against possible losses on future transactions.



We do not agree with this view. If income of the type above is to be left at the discretion of the department in a revolving fund to cover possible future losses in that fund, parliamentary control of public money is weakened because losses which should come under parliamentary scrutiny would not be adequately disclosed. Moreover, unless a surplus is transferred from a revolving fund to the Consolidated Revenue Fund, budgetary revenues are understated.

61. *Department of External Affairs missions abroad.* In our 1964 Report (paragraph 49) reference was made to a defalcation by a locally-engaged accountant employed by the Canadian Mission in Canberra, Australia. Inadequate supervision of the accountant's work and weaknesses in the departmental system of internal financial control were the main factors contributing to the delay in detecting the defalcation.

Discussions were held a year ago with departmental officers concerning these weaknesses. Although the Department despatches inspection teams at regular intervals to examine the operations of embassies and missions, their work does not include any examination of the accounting and financial records. In the past the Audit Office has not made test audits of these accounts, mainly because paid cheques, receipted vouchers and related documents are forwarded to the Department in Ottawa for verification.

In our discussions it was agreed that the Department would consider setting up a small internal audit staff and in the meantime the Audit Office would carry out test examinations at a number of posts to the extent it could integrate this work with other assignments, thereby keeping travel overhead to a minimum.

Following this arrangement, we made test examinations of the financial transactions and related administrative procedures of several embassies abroad during the past year. In each case detailed reports outlining the scope of the work undertaken and the results obtained were provided to the Department together with comments and suggestions for the improvement of practices and procedures found to exist in the posts visited. Action has been taken by the Department on the points raised.

A matter of concern at one of these embassies has not yet been resolved. Claims had been received from a local shipping company covering shipments of personal effects of staff members returning to Canada during the years 1961 to 1964. While delay had occurred in clearing and paying the 1962-64 portion of the claims because proper documentation was not provided by the company, the accounting records of the embassy showed that the 1961 portion, which amounted to \$2,230 at the current rate of exchange, had actually been paid in cash in 1961.

The shipping company maintains that it has never received any payment from the embassy in respect of these 1961 accounts. It states that its invoices, which are filed at headquarters in Ottawa, were not receipted, the signatures appearing thereon being merely certification by its accountant that the invoices were correct.

The matter is under study by the Department at the present time.

62. *Indirect compensation to chartered banks.* In our 1962 and 1963 Reports reference was made to the practice of the Government of maintaining large balances on deposit with the chartered banks, receiving interest only on the balances in excess of an aggregate of

\$100 million. The view was expressed that this constituted indirect compensation to the chartered banks for services provided to the Crown and was contrary to section 93(1) of the Bank Act.

The Public Accounts Committee in its Fourth Report 1963 advised the House that it was in agreement with the view of the Auditor General, and in its Sixth Report 1964 it reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965 (see Appendix 1, item 29).

At the 1965 session of Parliament, Bill C-102, entitled "An Act respecting Banks and Banking", was given first and second readings and referred to the Standing Committee on Finance, Trade and Economic Affairs. Clause 93 of this Bill reads as follows:

93. (1) No bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(2) Nothing in subsection (1) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

(3) No bank shall directly or indirectly charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer.

It should be noted that subsection (2) of clause 93 of this Bill is designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest bearing funds (currently an aggregate of \$100 million) on deposit with them.

63. *Special Government contributions to superannuation accounts.* Reference was made in paragraph 50 of last year's Report to the deficiency in the Public Service Superannuation Account which resulted when no special credits were made to the Account in respect of salary increases granted to civil service classes in four consecutive years as the result of cyclical salary reviews, although subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, then read:

There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase.

We were informed that the reason no such special credits were made to the Account as required by section 32 was that the salary increases granted to the four categories into

which the service had been divided for salary review purposes were not regarded as increases "of general application" for the purposes of the statute.

On March 6, 1964 the Minister of Finance informed the House of Commons of a general policy for dealing with the deficiencies in the various superannuation accounts. It was proposed to write off deficiencies existing prior to the commencement of the 1963-64 fiscal year to net debt and to amortize subsequent deficiencies arising from salary increases, over a five-year period commencing in the year in which the increases are authorized. In accordance with this policy, and pursuant to Department of Finance Vote 68e of the final Supplementary Estimates for 1963-64, recorded deficiencies of \$524,849,000 in the Canadian Forces Superannuation Account and \$6,333,000 in the Royal Canadian Mounted Police Superannuation Account were written off to net debt. Similar action was not taken at that time with respect to a recorded deficiency of \$276,661,000 as at December 31, 1957 in the Public Service Superannuation Account.

When the quinquennial actuarial report on the Public Service Superannuation Account as of December 31, 1962 was tabled on November 12, 1964, the Minister stated that authority would be sought from Parliament later in the year to write off to net debt an additional deficiency of \$110,536,000 revealed by the report, plus interest (as well as the previously existing deficiency of \$276,661,000) and to charge the deficiencies arising from pay increases authorized during the fiscal years 1963-64 and 1964-65 against expenditure over a five-year period commencing with 1964-65.

It was calculated by the Department of Insurance that the deficiency in the Superannuation Account as at December 31, 1962 plus interest to December 31, 1964 would amount to \$119,556,000 and that the additional deficiency arising from pay increases authorized in 1963-64, with interest to December 31, 1964, would amount to \$30,506,000.

To carry out the new policy, three Department of Finance votes were included in the Supplementary Estimates (D), 1964-65. Vote 24d authorized the write-off to net debt of \$396,217,000 representing the unamortized actuarial deficiency of \$276,661,000 in the Public Service Superannuation Account as at December 31, 1957 and the deficiency of \$119,556,000 as at December 31, 1962, including interest to December 31, 1964 (see paragraph 175). Vote 16d provided for the initial contribution to the Public Service Superannuation Account to amortize deficiencies resulting from the authorization of salary increases during the 1963-64 and 1964-65 fiscal years "each one of which was applicable to at least one-quarter of one per cent" of the contributors under the Act. A dollar vote (18d) was included to amend the Public Service Superannuation Act, the Canadian Forces Superannuation Act and the Royal Canadian Mounted Police Superannuation Act to require that the deficiency resulting from any salary increase "applicable to at least one per cent" of the persons covered by the respective Acts be amortized over a five-year period commencing in the year in which the increase is authorized. This vote was withdrawn in Committee of Supply and its provisions were incorporated in Chapter 5, 1965, "An Act to amend certain Acts respecting the superannuation of persons employed in the Public Service, members of the Canadian Forces and members of the Royal Canadian Mounted Police", assented to on June 2, 1965.



The amendments to the Canadian Forces Superannuation Act and the Royal Canadian Mounted Police Superannuation Act were made effective from January 1, 1965, thus providing statutory authority to charge one-fifth of the deficiencies in those accounts arising from pay increases in 1964-65 to expenditure of the year.

Subsection (2) of section 32 of the Public Service Superannuation Act, as amended by Chapter 5, 1965, now reads:

There shall be credited to the Superannuation Account, following the authorization of any salary increase applicable to at least one per cent of those persons employed in the Public Service who are contributors, in five equal annual instalments commencing in the fiscal year in which the salary increase is authorized, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty of the benefits payable under this Act, as a result of such salary increase.

Department of Finance Vote 18 of the Main Estimates, 1965-66, makes provision for the second annual contribution to the Public Service Superannuation Account to amortize the deficiency resulting from salary increases authorized during 1963-64 and 1964-65. Unlike Vote 16d of the 1964-65 Estimates and subsection (2) of section 32 of the Public Service Superannuation Act which refer, respectively, to "one-quarter of one per cent of the contributors" under the Act and "at least one per cent of those persons employed in the Public Service who are contributors", this vote reads:

Government's contribution to the Superannuation Account as a result of the authorization of salary increases, each one of which was applicable to at least that percent of the contributors under the Public Service Superannuation Act, during the 1963-64 and 1964-65 fiscal years, as may be prescribed by the Treasury Board, in such amount as, in the opinion of the Minister of Finance, is necessary to provide for one-fifth of the cost to Her Majesty in right of Canada for the benefits payable under that Act as a result of the said salary increases—\$10,000,000.

The Treasury Board, by T.B. 641422 of May 27, 1965, prescribed one-quarter of one per cent as the percentage of contributors required for purposes of Vote 18. This was to take care of a situation where salary increases were not authorized to all members of a large group at the same time within the fiscal year, and while no single increase applied to as many as one per cent of the contributors under the Act, in total they did.

Although the three superannuation Acts, as amended, authorize credits to the superannuation accounts in five equal annual instalments, the full amount of the actuarial deficiency in each account was credited during 1964-65 and an offsetting entry was made to a deferred charge account. The deferred charge was then reduced by debiting expenditure with the one-fifth authorized for the year, leaving four-fifths to be shown as "unamortized portions of actuarial deficiencies" on the asset side of the Statement of Assets and Liabilities until charged to expenditure in subsequent years.

By immediately crediting the superannuation accounts with the full amount of existing deficiencies, additional deficiencies resulting from loss of interest were avoided, but the practice is not consistent with the recent amendments to the governing statutes.



The following is a summary of the transactions in the deferred charge accounts during 1964-65 and the position at the year-end:

Balance, April 1, 1964, representing the unamortized portion of the actuarial deficiency in the Public Service Superannuation Account as at December 31, 1957.....	\$ 276,661,000
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Add:

Public Service Superannuation Account	
Deficiency as at December 31, 1962 with interest to December 31, 1964.....	\$ 119,556,000
Deficiency arising from pay increases authorized in 1963-64 with interest to December 31, 1964...	30,506,000
Deficiency arising from pay increases authorized in 1964-65.....	19,395,000
	<hr/> 169,457,000
Canadian Forces Superannuation Account	
Deficiency arising from pay increases authorized in 1964-65.....	67,202,000
Royal Canadian Mounted Police Superannuation Account	
Deficiency arising from pay increases authorized in 1964-65.....	5,192,000
	<hr/> 241,851,000
	<hr/> 518,512,000

Deduct:

Written off to net debt (Vote 24d)	
Public Service Superannuation Account	
Deficiency as at December 31, 1957.....	276,661,000
Deficiency as at December 31, 1962 with interest to December 31, 1964.....	119,556,000
	<hr/> 396,217,000

Charged to budgetary expenditure

One-fifth of the deficiencies arising from pay increases authorized subsequent to April 1, 1963	
Public Service Superannuation Account (Vote 16d).....	9,980,200
Canadian Forces Superannuation Account (Statutory).....	13,440,400
Royal Canadian Mounted Police Superannuation Account (Statutory).....	1,038,400
	<hr/> 24,459,000
	<hr/> 420,676,000

Balance, March 31, 1965, representing the unamortized portions of the actuarial deficiencies in the superannuation accounts.....	\$ 97,836,000
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64. *Errors in Public Service Superannuation Account pension and contribution calculations.* Comments under this heading have appeared in our Reports to the House for the past four years. The Public Accounts Committee in its Fourth Report 1963 noted its concern over the high incidence of error in the superannuation accounts and in its Sixth Report 1964 expressed its further concern that the matter was taking so long to be cor-

rected. The Committee requested the Auditor General to keep it fully informed as to the progress being made in this direction (see Appendix 1, item 24).

While our test examinations in 1964-65 indicated a reduction in the number of errors in current calculations, they continued to disclose numerous errors made in previous years. We directed the attention of the Superannuation Branch to 80 cases of non-payment or underpayment of amounts due under Vote 667 of Appropriation Act No. 5, 1958 and the Public Service Pension Adjustment Act, 1959, c. 32, amounting to \$22,700 up to February 28, 1965 and to two overpayments. A detailed check by the Branch revealed 245 additional underpayments amounting to \$30,900 to July 31, 1965 and 13 overpayments amounting to \$1,200 to September 30, 1965.

During the year the Superannuation Branch established a special review unit to check in detail the files of all contributors between the ages of 55 and 63 in order to locate any financial discrepancies before the contributors leave the service. There are some 25,000 contributors in this age group. As those over 63 will be retiring in the near future, the Branch proposes to delay checking their files until the retirement dates.

The number of contributors to the Public Service Superannuation Account is large and the numerous amendments to the Act and Regulations over the years have presented administrative problems. However, clerical work of this type is a necessary part of personnel administration in all large organizations. Its accuracy is of particular importance to the individual contributor to the Superannuation Account who should not have to accept the possibility, after retirement, of a retroactive adjustment of his pension caused by mistakes or inadequate departmental procedures. Prompt and effective steps should be taken to further improve the quality of the work and to identify and correct the numerous errors made in previous years.

The multiplicity of errors which has been the subject of comment by us in recent years had its origin in a directive dated June 11, 1957 from the then Minister of Finance which established a division of responsibility between the Superannuation Branch and the Comptroller of the Treasury. Under this division the Comptroller's pre-audit of benefit payments was discontinued and the Superannuation Branch was relieved of all responsibility for the correctness of superannuation contribution deductions from pay. Accordingly, when determining annuities to be paid, the Branch does not verify contributions made in relation to salary earned which would automatically indicate errors made at any time during the period of service and reduce the possibility of error in calculating the annuity. Even with the transfer of responsibility for administration of the Superannuation Branch to the Comptroller of the Treasury in December 1963, this simple verification was not re-introduced.

On May 14, 1959 we made the following suggestion to the Superannuation Branch:

Might we suggest that, if the Superannuation Account and the interests of the individual contributors are to be adequately protected, the Superannuation Branch should ascertain that a contributor's account is in order before authorizing a benefit, and that the procedure should include an examination of the employee's contributions in relation to his salary and the documents on file. This would probably require the inclusion of a record of contributions (current and arrears) in the Non-elective Pensionable Service Record (FA9).

This suggestion has not been accepted and in our opinion the unsatisfactory situation in the Superannuation Branch will not be adequately resolved until it is adopted.

Reference was made in the 1963 Report and in last year's Report (paragraph 51) to the lack of verification of the correctness of contributions remitted to the Central Pay Division in respect of employees of various Crown corporations. We were advised last year that action would be taken to correct the situation. We find, however, that little progress has been made. Contributors' accounts in this category totalled 4,353 at December 31, 1959 and 8,493 at December 31, 1964. By September 1965 entries in 2,335 accounts had been completed and verified to December 31, 1959 and in 122 accounts had been completed and verified to December 31, 1964.

65. *Extra-statutory death benefit and pension payments.* In two cases noted during the year, ex gratia payments were authorized in areas already regulated by legislation.

Approval was given by Order in Council P.C. 1965-17/51 of January 13, 1965 to a recommendation that a payment of \$4,984 be made on an ex gratia basis to the widow of a public servant, representing the difference between contributions that would have been required and the \$5,000 death benefit that would have been payable if the deceased officer had been a participant under Part II of the Public Service Superannuation Act during his period of employment (8 months) in the public service. The man had not been a contributor to the Public Service Superannuation Account.

An Order in Council, P.C. 1965-14/428 of March 12, 1965, authorized ex gratia payments of \$250 per month and \$90 per month, respectively, commencing with January 1965, to two former Members of Parliament who were appointed to an advisory committee of the Government on election expenses, in recognition of the fact that while being paid out of the Consolidated Revenue Fund \$100 for each day of service to the committee they became disentitled to receive their monthly pensions in the foregoing amounts under the Members of Parliament Retiring Allowances Act.

66. *Subsidization of Fishermen's Indemnity Plan.* In last year's Report (paragraph 53) it was explained that two accounts, the Lobster Trap Indemnity Account and the Fishing Vessel Indemnity Account, are maintained in connection with this Plan which was introduced in 1953-54. It was pointed out that although the Plan was intended to be self-supporting, except for its administrative costs which are met through parliamentary appropriations, both accounts had recorded net deficits from their inception to March 31, 1964.

In 1964 we were informed by the Department of Fisheries of steps which had been taken, in respect of the Lobster Trap Indemnity Account, to cope with annual deficits which had reached a peak of \$153,000 in 1962-63. These included the adoption of improved administrative procedures and an amendment to the regulations early in 1964 to increase the amount deducted for "normal" loss in the calculation of indemnity. The deficit of \$29,000 in 1963-64 was followed by a deficit of \$10,000 in the current year, the lowest figure since 1955-56.

A year ago, following deficits of \$81,000 in 1962-63 and \$168,000 in 1963-64 with respect to the Fishing Vessel Indemnity Account, we were informed that the Department was engaged in a detailed study to ascertain the extent to which factors other than weather



might have been operative during this period and to determine what further changes in the regulations are practicable or to what extent the premium rates should be revised. The study was recently completed by the Department's Economics Service and its findings are under consideration.

The deficit of \$71,000 in the Fishing Vessel Indemnity Account for 1964-65, while substantially less than that for the preceding year, was the third highest since the inception of the Plan.

67. *Free accommodation for international commission without parliamentary sanction.* Vote 5 of the Department of Fisheries makes provision annually for Canada's share of the expenses of international commissions named in the Estimates.

In addition to the payments made under this authority, it has been the practice to provide free accommodation in Crown-owned premises for a number of the international commissions. An exception was the International Commission for the Northwest Atlantic Fisheries which in May 1963 had entered into a three-year lease at a rental of \$200 per month for accommodation in a government-owned building at Dartmouth, N.S. In June 1964, when, due to rising costs, the Commission was considering increases needed in the contributions of member countries, the Governor in Council by Order in Council P.C. 1964-10/862 of June 18, 1964 cancelled the rent payable during the remainder of the lease.

It is our opinion that subsidy in the form of free accommodation in all such cases should be drawn to the attention of Parliament in the annual Estimates.

68. *Questionable charge to Vote 1 of the Department of Industry.* During the year a firm sought assistance from the Department of Industry to carry out a development program to determine the feasibility of a new process for treating various types of metallic ores. The firm had been unable to obtain assistance from any other government department or agency but as the project was considered a promising one deserving of support, the Treasury Board in January 1965 approved in principle the granting of assistance up to a maximum of \$88,550 as the Crown's share of the total estimated cost of \$177,330. However, at the time there was no appropriation to which assistance of this type, which was not defence oriented, could be charged. As an alternative the Board decided to authorize the entry into a contract in the estimated amount of \$19,560 representing the amount of Crown assistance required for 1964-65, in consideration for which the Department would obtain a report on the work done on the project for the period January 15 to March 31, 1965. The firm billed the Department \$18,935 and this amount was charged to Department of Industry Vote 1, Departmental Administration (Professional and Special Services).

It is questionable whether expenditure of this type, which is actually to assist in advancing technological capability of Canadian industry, is within the ambit of the Department of Industry administration vote.

69. *Federal losses from bankruptcies.* Our 1962 Report drew attention to the increased cost of supervision of bankruptcies caused by the disclosure of irregularities in the ad-



ministration of estates by a number of trustees in bankruptcy and to the increase in the rate of levy on estates that had been introduced to meet the additional expenses.

In October 1964 the Province of Quebec appointed a commission of inquiry to determine the effect on the revenue of the Province of bankruptcies occurring between November 1, 1959 and November 1, 1964. The report of the commission, which was submitted on July 30, 1965, estimated that the Province had lost approximately \$5.5 million in revenue during the period as a result of bankruptcies and stated that "fraud and dishonesty in one way or another penetrated deeply into a large portion of bankruptcies and liquidations". The commission recommended, among other things, changes in the Bankruptcy Act, R.S., c.14, and in the administration of bankruptcy, including the establishment of a "permanent inquiry service" either under section 3(5) of the Bankruptcy Act which provides that:

The Superintendent may engage such accountants or other persons as he may deem advisable to conduct any inspection or investigation . . .

or under some other legislative provision.

No amount has yet been established to indicate the extent to which federal revenue has been lost as a result of these irregularities.

70. *Living allowances to federally-appointed judges.* In our 1962 Report reference was made to the payment of living allowances to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees. We expressed the opinion that a daily rate of \$60 appeared excessive as a living allowance and could be regarded as including an element of remuneration, contrary to subsection (1) of section 39 of the Judges Act, R.S., c. 159. This subsection prohibits the payment to a judge of any remuneration in addition to his judicial salary "for any duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the Government of Canada or the government of any province", subsection (3) of the same section simply permitting payment of "such moving or transportation expenses and living allowance as the Governor in Council or the Lieutenant-Governor in Council, as the case may be, may fix by general or special order".

The Public Accounts Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration and recommended in its Fourth Report 1963 that if additional remuneration was to be paid to judges, the approval of Parliament for such payment should be obtained. The Committee took notice of a subsequent appointment at \$100 per day and reiterated the recommendation in its Fourth Report 1964 (see Appendix 1, item 7).

The Minister of Justice, in a letter to the Chairman of the Public Accounts Committee dated August 13, 1964, referred to the fact that the allowance was subject to income tax and gave as his view that it did not contain an element of remuneration. He went on to say that even if an element of remuneration was included, it was not prohibited by the Judges Act and "no further approval of Parliament is necessary".

Two additional circumstances have now been noted which support the opinion that the amount of these allowances is such that an element of remuneration is included therein and consequently that they are contrary to existing legislation covering payments to judges:

1. A judge was appointed to act as an Industrial Inquiry Commission to inquire into the industrial situation arising from the running of certain trains through terminals in Ontario and Alberta. An allowance of \$100 per day plus actual out-of-pocket transportation expenses was authorized and he was paid \$13,200 in allowances in the year under review, although his duties were performed substantially at his place of residence.
2. Certain judges who had been granted allowances of \$60 per day while acting outside their normal judicial duties were granted remission of the additional income tax resulting from receipt of the allowances.

71. *Municipal winter works incentive program.* The federal Government is signatory to agreements with all of the provinces and the Yukon and Northwest territories under which it undertakes to pay a percentage of direct labour costs incurred on site on accepted works projects undertaken during the winter months by municipalities, Indian reserves or bands, and unorganized settlements. The federal Government has been party to similar agreements with the provinces since 1958, the terms having been modified over the years to provide for a wider scope of acceptable projects, an increase in the maximum incentive payable towards municipal buildings constructed, and an increase in the percentage of direct labour costs payable under special circumstances. Incentive payments by the federal Government from the inception of the program to the end of the year have amounted to \$136,741,000.

The prime purpose of the federal payments is to encourage municipalities to create additional winter employment by postponing or advancing work scheduled for summer into the winter period. Embodied in the agreements are certain conditions designed to ensure that the maximum benefit from the additional employment created accrues to persons who would be unemployed in the absence of special winter works projects.

A condition of the agreements is that final claims for incentive payments by the federal Government will be audited by the provincial auditor or an auditor designated by him. In some of the provinces the audit carried out in compliance with this condition included an examination of the records of the municipalities and contractors involved, an essential procedure in determining whether the terms of the agreement are being complied with, whether the charges are legitimate and whether the purposes of the agreement are being achieved. In other provinces, checks were being made of the records of the municipalities but not of the contractors. In Saskatchewan and Prince Edward Island, however, little more than a check of the arithmetical accuracy of the claim and the authority for the projects was being made. The certificate of the provincial auditor was based primarily on the certificates (attesting to the direct payroll costs incurred) provided by the relevant municipalities and contractors, without any examination being made of the underlying records of the municipalities or contractors. In these cases there is reason to doubt whether all charges are legitimate and whether the conditions of the agreements have been met.



A condition introduced in the 1963-64 agreements is that the provinces will permit access by authorized officials of the Government of Canada to records, documents and files of the province and its municipalities as may be deemed necessary for the audit of direct payroll costs claimed under this program. Although a signatory to the agreement, the Province of Quebec has indicated its reluctance to an examination being made of the records of its municipalities by members of the Audit Office on the grounds that these records are already being subjected to extensive examination by the provincial auditor. As a result, we are not examining the records of municipalities in this Province.

Our test examinations of provincial and municipal records and of reports of provincial auditors indicate that the effectiveness of the program in providing benefits to those whom it was designed to benefit is somewhat less than its potential and that there is need for a more specific spelling-out of the terms of the agreements to set straight some questionable practices which have developed:

1. Instances were noted where regular or permanent employees of a municipality were employed on projects without being replaced at their regular jobs by men drawn from the pool of unemployed, as required by the agreement. In these cases, the incentive payment, instead of being diverted to the unemployed, becomes an additional subsidy to the municipality.
2. Many projects carried out by contractors have a labour content which includes supervisors, technicians and engineers, including sometimes the principals of the firm, whose earnings are eligible for reimbursement because they possess special skills and their services are essential to the project. Few of these persons can be considered to be actually seeking employment and, therefore, very little of the reimbursement related to their earnings is directed to the unemployed.
3. The federal incentive payment is 50% of the direct payroll costs of projects except for those carried out in "designated areas" and in areas determined by the Minister of Labour to be areas of high winter unemployment, where the rate is 60%. This incentive, with few exceptions, is supplemented by the provinces, the provincial incentive varying between 25% for most of the provinces to 40% for one province. Since the combined federal and provincial contributions account for from 75% to 100% of payroll costs, the burden on the municipalities can sometimes be small or even non-existent. In these circumstances, there is a tendency for municipalities to undertake 'makework' projects, usually of high labour content, which might otherwise never be undertaken, merely to provide work for its residents.
4. Some unorganized settlements and a few municipalities have financed their share of the cost of projects by assessing each worker a percentage of his earnings. Where this situation has been encountered in the audit the amount assessed has been disallowed as a cost eligible for reimbursement on the grounds that the payroll costs do not represent the municipality's actual outlay for labour expended directly on a project.
5. The agreements stipulate that overtime work, except in emergencies, should be excluded, the purpose being, of course, to encourage either the employment of more workers during the regular working hours or extension of the period of employment. 'Emergency' is not defined and some contractors carried out overtime work for reasons such as to complete a project within the prescribed period of the program, or to complete a project in order to commence another undertaking. The payment of an incentive towards overtime incurred under these circumstances contributes little to the benefit of the unemployed.

6. A condition of the agreements frequently not complied with is one requiring that the facilities of the National Employment Service, where available, be used in hiring workers for accepted projects. As a result it was almost impossible to determine whether workers engaged on projects were, in fact, previously unemployed. Three main factors contributed to the failure to recruit in this manner. First, many urban municipalities are required under terms of union agreements to re-employ members of the union for winter works projects before other unemployed may be recruited. Second, many municipalities and contractors have a policy of employing temporary or laid-off personnel before providing employment for others. Third, in agricultural areas, municipalities employed farmers who, being not insurable under the Unemployment Insurance Act, are frequently not registered with the National Employment Service. Where, in order to comply with this requirement, municipalities or contractors attempted to obtain the approval of the National Employment Service in the above circumstances, they were usually refused on the grounds that the bona fides of the unemployment status of these workers cannot be established and it would be tantamount to rubber-stamping employment transactions in which the National Employment Service did not participate.
7. A property comprising a monastery and surrounding land belonging to a religious order is incorporated as a municipality. As such, it is entitled to have eligible local projects carried out and to be reimbursed the normal incentive payment under the program. Included in the labour costs forming the basis of this municipality's claim in connection with the construction of an auditorium, and ruled admissible charges, were the wages paid to the religious brothers who worked on this project.
8. Instances were noted on projects carried out under contract where the wages shown on the claim were at the rates charged to the municipality by the contractor and not at the rates actually paid by him to his employees.

In addition to the questionable practices noted above, our review of the working paper files of the provincial auditors who carried out a detailed audit of claims revealed instances of fraudulent and irregular practices being disclosed. These practices include the payment of wages to employees for longer hours than were actually worked, the reporting of wages on claims at hourly rates which were more than were actually paid, the inclusion of fictitious employees on project payrolls and the inclusion on project payrolls of municipal employees who were engaged on other than winter works projects.

72. *Electronic data processing system abandoned.* In 1964-65 the Unemployment Insurance Commission, with Treasury Board approval, instituted a program whereby unemployment insurance benefits for the Prairie Region would be paid by mail from a centralized claims payment centre located in Winnipeg. The program was to be implemented by using electronic data processing equipment to replace the existing mechanical tabulating equipment in use in the six payment centres in the Region. The Commission's preliminary feasibility study completed in May 1964 indicated a potential saving from this operation of over \$100,000 a year.

This installation, a prototype for similar centres in each of the Commission's regions across Canada, was expected to be capable of processing a potential load of 90,000 active claims in the Prairie Region. The equipment installed was that recommended by the manufacturer of its main component unit who, in addition to guaranteeing that its performance would meet the Commission's requirements, undertook to do the necessary systems and programming work.



The installation was not a success; it was operated at 10% of its rated capacity and the supporting clerical staff requirements exceeded expectations. The computer operation was abandoned and the equipment returned to the supplier at the end of June 1965.

The failure of this equipment was due to faulty planning by the Commission and the manufacturer. In the haste to make it fully operational before the 1964 winter claim load began, the choice of equipment appears to have been on the basis of availability rather than suitability, with the result that the computer unit installed was not suited to the complexity of the operation. Insufficient time for proper programming was also a factor.

The total cost to the Unemployment Insurance Commission of this regional payments centre in terms of equipment, rental, additional salaries, overtime, travel expenses and other identifiable costs is estimated at \$200,000. The manufacturer had guaranteed that the system would produce initial payments commencing August 17, 1964 and be fully operational by September 1, 1964 and sent several programmers to Winnipeg in an effort to achieve this purpose. No claim has been made by the Commission against the manufacturer for any part of this cost.

Recommendations concerning procurement practices in the leasing of automatic data processing equipment were made by the Royal Commission on Government Organization in Report 4 on "Paperwork and Systems Management".

The case underlines the importance of manufacturers being required to indicate in precise terms the guarantees they offer against failure of their equipment to meet specified performance.

*73. National Defence administrative regulations and practices.* The Public Accounts Committee in its Sixth Report 1964 requested the Auditor General to inform the House of Commons of any case where changes in the Armed Forces administrative regulations appear to be inadequate to bring about the desired results or where abuse and waste of public funds develop (see Appendix 1, item 15). The following matters continue to be unsatisfactory:

1. REMOVAL EXPENSES—MOBILE HOMES.—We stated in last year's Report (paragraph 56 (2)) that the Department was preparing an amendment to the regulations to include specific directions with respect to the movement of mobile homes and their contents. We understand that these regulations have been prepared but have not yet been forwarded to the Treasury Board for approval.
2. UNECONOMICAL MODE OF TRANSPORTATION.—The travel regulations covering the use of privately-owned motor cars by servicemen for temporary duty travel and for transporting themselves and their dependents to new places of duty, etc., were amended effective March 1, 1963 by substituting all-inclusive mileage rates for the previous allowances which were the equivalent of hypothetical expenses calculated on the cost of the journeys by public transportation facilities. The object of this change was to simplify the method of calculating reimbursement, without increasing the expenditures. In the course of our audit of travelling and moving expense claims involving long distances, we found that the allowances paid under the amended regulations were generally in excess of the allowances the servicemen would have received prior to the amendments.

As was pointed out in last year's Report (paragraph 56 (4)), members on duty travel may at the discretion of the commanding officers use their motor cars for their own convenience and are entitled to claim mileage allowances to cover transportation, meals and accommodation. An example was given where a saving of \$400 would have resulted had five men travelled as a group by rail instead of each using his own motor car. In 1964-65, nine naval officers, on the authority of their commanding officers, travelled on duty separately by car from Halifax to Victoria and return to attend a course of instruction in Victoria for the period January to May 1964. Expenses claimed by the officers for the trip, comprising the mileage allowance and charges for excess baggage and ferry tolls, totalled \$5,282. An estimated \$4,600 could have been saved had they travelled by service aircraft.

We have been informed that a comprehensive evaluation of the present allowances is being undertaken by the Department.

3. **TRANSPORTATION ON LEAVE ALLOWANCE.**—Departmental regulations provide for transportation allowance of two and one-half cents for each mile travelled in excess of 500 miles to assist servicemen financially who proceed to their homes on leave. The length of the journey is calculated by using railway competitive mileage charts for the portion of the trip served by railways, and actual mileage by the most direct route for the remaining portion. A test examination disclosed that since the introduction of special economy rates by the railways, the amounts paid for long journeys are in excess of actual rail fares. The matter of the relationship between the transportation allowance and the now lower rail fares was accordingly drawn to the attention of the Department.

74. *Questionable charge to Vote 15 of the Department of National Defence.* As a Canadian contribution to the International Biological Program under the sponsorship of the World Health Organization and at the request of McGill University, the Department of National Defence provided the repair ship HMCS *Cape Scott* to transport a medical expedition to Easter Island. The additional costs borne by the Royal Canadian Navy appropriation (Vote 15) as a result of this operation are estimated to be \$215,000.

In our view this expenditure is in the nature of a contribution to an outside organization and therefore it is questionable whether it falls within the ambit of a defence appropriation.

75. *Bobcat Program for development of army vehicles.* On November 19, 1964 the Special Committee of the House of Commons on Defence met with officials of the Department of Defence Production to discuss among other matters a statement furnished by the Department to the Committee concerning the Bobcat Development Program. The text of the discussion and statement will be found in Minutes of Proceedings and Evidence No. 21 of this Committee.

The final settlement of the Bobcat Development Program during the past year brought its total cost to \$9,252,908. The program was a failure. No serviceable vehicles were produced and the Government has since entered into a contract for the supply of 961 United States vehicles at an estimated cost of \$32 million.

The history of the Bobcat Development Program starts ten years ago when a contract was placed in 1954 for the development of a mild steel prototype of an infantry carrier to replace World War II Universal Carriers which were rapidly becoming obsolete. The vehicle was delivered to the Army in the fall of 1956 and cost \$1,010,856.



When the project was reviewed in 1956 it was decided to develop a family of light tracked armoured vehicles known as the Bobcat, for use as personnel, field artillery, infantry weapons and cargo carriers, all having the same basic tracked chassis. About the same time the United States Army which had knowledge of this proposal decided to produce its own armoured personnel carrier with essentially the same main characteristics as the Canadian vehicle. However, the U.S. Army did not propose to meet its several requirements with a common chassis as in the Bobcat family.

The Bobcat Program called for development in three phases. The contract for the first phase covering the development and supply of three light tracked chassis at an estimated cost of \$1 million was approved by the Treasury Board in November 1956. The contract was dated January 2, 1957 but on March 29, 1957 it was amended to provide for the supply of the three chassis complete with bodies. This significant change in the contract was not approved by the Treasury Board until November 1957 when an additional \$250,000 was provided for the project. Further amounts of \$350,000, \$200,000 and \$165,000 were approved by the Treasury Board in June 1958, October 1958 and April 1959 to cover estimated additional costs. There was usually a lapse of about five months between the receipt of the contractor's request for additional funds and its processing through the Departments of Defence Production and National Defence before submission to the Treasury Board. The vehicles were delivered to the Army in October 1958, but it was not until April 1959 that sufficient funds were provided to finalize the contract at a total cost of \$1,933,670.

In June 1958 the Chiefs of Staff proposed the initiation of the second phase of the development program for the production of six hard steel pilot models including production drawings at an estimated cost of \$1,310,000. This was later submitted to the Minister of National Defence for his approval and to the Treasury Board. This submission and an alternative proposal by the contractor to telescope the development and pre-production stages into a production order contract were considered by the Treasury Board on January 23, 1959. However, the Board recommended to Cabinet on January 27, 1959 that there should be no departure from the present concept of the orderly development of the Bobcat vehicle including the procurement of a further six pilot models.

The Treasury Board on April 24, 1959 authorized entry into a contract for the assessment of engineering tests on the three existing prototypes which, notwithstanding its previous recommendation to Cabinet, included the production of one armoured hull of a personnel carrier, the design and manufacture of an unarmoured load carrier body, provision of special parts, tools, test rigs and instrumentation, reports, specifications and literature, and provided \$452,000 to initiate the project. In June 1959 the contractor advised that a study of the work required by the Army indicated that funding would have to be increased by \$804,000. On October 29, 1959 the Treasury Board authorized the amount required and made provision for the contract to be amended to include the production of one armoured vehicle complete with armoured hull, a modified version of the prototype design steering and suspension units, the engineering and production of one vehicle set Timken planetary final drives including the drawings, specifications and spares necessary to support vehicle tests, and to provide such tooling, test rigs, and instrumentation as may be required. These amendments were incorporated into the contract on

November 13, 1959. In January 1960 the contractor informed the Department of Defence Production that an additional \$644,000 would be required to complete the contract. This amount was provided by the Treasury Board in June 1960, by which time the Board had authorized expenditures of \$1.9 million. The armoured personnel carrier was delivered to the Army in October 1960 and was found to be 2,000 pounds overweight and in need of product improvement before it could be accepted for field use. About the same time the contractor explained that funds originally intended to complete drawings and specifications had been used to cover additional changes in the scope of the actual development work as it progressed, and that a further \$75,000 was required to complete drawings and specifications, which was approved by the Treasury Board on October 28, 1960. The final cost of the work under this contract totalled \$1,972,692, bringing expenditure on the program to this date up to \$4,917,218.

On February 11, 1961 the Cabinet authorized the procurement of 500 Bobcats at an estimated cost of \$25 million on the following basis:

- (a) a pilot production run of 20 vehicles to be carried out at this time at an estimated cost of \$3.7 million (included in the above total) to cover the vehicles, tooling and other related costs; and
- (b) on completion of the pilot production, tenders to be invited for the remaining vehicles on a firm fixed price.

By this time the U.S. Army had its armoured personnel carriers in service, whereas the Department of National Defence was not yet in a position to go into full scale production because only one vehicle had been delivered which was overweight, required further product improvement and had not been proven operationally.

When the Treasury Board authorized the contract referred to under (a) above, the view was expressed that a tight control over specifications governing work under the contract should be maintained at all times. For this purpose the Board requested that an interdepartmental committee continue to screen all proposals involving product improvement before approval was sought to amend the provisions of the contract, and that a member of the Treasury Board staff participate in the work of the committee so that the financial implications of product improvement would be kept constantly to the fore. The interdepartmental committee was formed on April 10, 1961 from which date it held regular monthly meetings.

The contract for the pilot production run, dated April 13, 1961, provided separate estimates of expenditure under each of the following headings: product improvement, production tooling, plant rearrangement, and vehicle production, with the aggregate liability of the Crown under the contract being limited to \$3.7 million. The contract also provided that the contractor was to advise the Minister well in advance if any of the estimated expenditures were likely to be exceeded, and unless such new estimates of expenditure were approved by the Minister any expenditures incurred by the contractor causing the original estimates to be exceeded were not to be reimbursed to the contractor, but at no time were the new estimates to increase the liability of the Crown beyond the ceiling price of \$3.7 million.



The contractor's progress report, giving the financial position of the contract at December 31, 1962, submitted to the interdepartmental committee, revealed that expenditures under two headings of the contract had been exceeded. A subsequent report giving the financial position at March 31, 1963 revealed over-expenditures under all headings of the contract except for plant rearrangement. In August 1963 the contractor indicated unwillingness to continue the contract unless additional funds were provided by the Crown. In September 1963 the interdepartmental committee reported the position to the Treasury Board at which time the contractor's reported costs to July 26, 1963 were as follows:

	Estimated expenditure	Contractor's reported costs	Excess of cost over estimate
Product improvement.....	\$ 1,096,516	\$ 1,238,328	\$ 141,812
Production tooling.....	520,570	621,996	101,426
Plant rearrangement.....	32,636	32,285	(351)
Vehicle production.....	2,050,278	2,848,430	798,152
	<u>\$ 3,700,000</u>	<u>\$ 4,741,039</u>	<u>\$ 1,041,039</u>

The contract was terminated in December 1963. In February 1964 the contractor informed the Department of Defence Production that, after making an allowance of some \$42,000 for post-termination costs, the total costs had exceeded the payments received from the Crown by about \$1,636,000. The contractor proposed that the excess costs should be shared equally with the Crown on the grounds that "the full implications of the proposed improvements were not appreciated when the contract was let and accordingly there was a considerable under-assessment of the effort required and costs involved. The original armoured prototype, on which the concept of the contract was based, certainly did not measure up to the specifications written for and applied to the new vehicles" and experience had shown that, instead of a product improvement program, this phase of the work involved a redesign of about 90% of the machine. The contractor made formal claim for reimbursement of \$799,612 additional costs and was prepared to absorb all post-termination costs including those involved in the scrapping of the vehicles.

Notwithstanding the fact that the Crown had no legal obligation to pay the contractor's claim (a position which the contractor himself acknowledged) the Department considered that there had been a change in the scope of the work and recommended to the Treasury Board that the claim be settled and this was negotiated and paid in an amount of \$735,621 in April 1964. In the opinion of the Audit Office this constituted an ex gratia payment which should have been disclosed as such in the Public Accounts.

Non-productive expenditure of public funds of this magnitude should be subjected to the most searching inquiry to determine how it might have been minimized or contained. Officials of the Department of Defence Production told the Special Committee on Defence that while it was difficult to determine precisely all the factors which resulted in the

termination of the Bobcat Development Program, it could be said with some certainty that the following were contributing factors:

1. The scope of the program was not adequately defined at the early stages of the program and consequently the program was inadequately financed. The necessity of re-funding and re-approval at various stages throughout the program resulted in lengthy delays.
2. The design requirements for the Bobcat were altered a number of times over the course of the program which necessitated changes in the development of the vehicle although this is not abnormal in a development program and was probably not a major consideration in the ultimate lack of success.
3. Similar developments were undertaken in the United Kingdom and in the United States and at the time of cancellation of the Bobcat fully operational vehicles were available from the United States at considerably less than the projected cost of the Bobcat and with much earlier delivery for Canadian Army use. The United States vehicle had by that time also been adopted by a number of other NATO countries.

76. *Additional cost resulting from failure to exercise option to renew agreement for the supply of natural gas.* An agreement for the supply of natural gas to Camp Wainwright, Alberta, at 21 cents per thousand cubic feet, contained a clause giving the Minister of National Defence the option of renewal for a further period of four years upon termination of the agreement on January 2, 1964.

Instead of exercising the option, a new agreement was entered into for the supply of gas at 23 cents per thousand cubic feet, plus a service charge of \$100 per month. Based on the year's consumption, the additional cost to the Crown through failure to exercise the option is approximately \$3,900, which over the life of the agreement will amount to approximately \$15,000.

77. *Bomb Toss Computer.* In order to meet the requirements of existing bombing techniques, a Bomb Toss Computer was selected in 1959 for installation in the new CF-104 aircraft, the first of which was scheduled for delivery in March 1961. A contract with a Canadian manufacturer for work preliminary to the production of the Bomb Toss Computer in Canada was completed at a cost of \$332,000.

On May 25, 1960, although the drawings for the Computer were still in preparation, a contract was entered into with the same manufacturer for the purchase of production inventory material for the manufacture of the first 50 units. The estimated cost of this material was \$885,000.

In the meantime there was a trend developing away from the technique requiring the use of the Bomb Toss Computer and in August 1960 it became known that another type of weapon would very likely become available which would not require the use of this Computer.

In September 1960 the contract was extended to cover the procurement of production inventory material for an additional 188 units at a cost estimated at \$3,481,000. The reasons given to the Treasury Board for the need to extend the contract at this particular time were that there was a very tight delivery requirement to meet the aircraft delivery

schedule and that cost savings and a higher Canadian labour and material content would be achieved by purchasing production and spares support inventory concurrently.

In November 1960 it became necessary to equip the CF-104 aircraft with Dual Timers for the delivery of a new type of weapon. These Dual Timers, two of which were required in each aircraft, were being produced in the United States.

At this time it was considered that the Dual Timer did not duplicate the service provided by any of the other weapons systems, nor did it detract from the original purpose or operational value of the existing systems. It was therefore decided that the CF-104 was to be equipped with the two weapons delivery devices.

In February 1961 the contract for the Computer was amended to reduce the purchase of production inventory material from that required for 238 units to that required for 168 units, and at the same time the contract was further amended to include the purchase of 35 completed units on a cost plus ceiling price basis from the Canadian manufacturer, and a further 35 completed units at a lot price from the Canadian manufacturer's associated company in the United States.

In June 1961 the Royal Canadian Air Force discontinued pilot training for the type of weapon the Bomb Toss Computer was designed to deliver, a decision which cast further doubt on the future of the Computer. Nevertheless, it was decided that "the Computer be left in the aircraft to give flexibility of weapon employment for the future", and in September 1961 the contract for the Computer was further amended to provide for the manufacture of 168 additional Computers at a unit price of \$21,933.

This last amendment increased the amount of the contract to \$5,931,000 covering the following:

Purchase of 35 complete units from the Canadian contractor on a cost plus ceiling basis which averaged \$28,500 per unit.....	\$ 999,000
Purchase of 35 complete units manufactured by the United States associate of the Canadian manufacturer at a lot price which averaged \$30,300 per unit.....	1,061,000
Purchase of 168 units from the Canadian manufacturer at a price of \$21,933 per unit.....	3,685,000
Qualification, sample testing and modification kits.....	186,000
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	\$ 5,931,000
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Although deliveries under the contract are complete, the contract has not yet been fully settled and changes may occur in the above figures.

By July 1962 it was concluded that the Bomb Toss Computer had severe limitations and would require extensive modifications if it were to be used. It was also found that the Dual Timers, which cost approximately \$1,400 per aircraft compared with \$21,900 per aircraft for the Computer, could provide an accuracy at least as good as that which could be obtained by the Bomb Toss Computer. In January 1963 it was decided to remove the Bomb Toss Computers from all aircraft and to place them in long term storage, and in April 1964 it was decided to dispose of the Computers together with all tooling, test equipment and spares.



Other contracts were involved in the Bomb Toss Computer program, the overall cost of which was \$7,210,000 as follows:

Preliminary work.....	\$ 332,000
Acquisition of 238 units—detailed above.....	5,931,000
Tooling and special production test equipment.....	229,000
Support spares.....	718,000
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	\$ 7,210,000
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78. *Excessive payments to municipal school board.* In June 1957 the Department of National Defence entered into an agreement with a municipal school board for the provision of schooling to dependent children residing in married quarters at an R.C.A.F. station.

The Department agreed to provide capital assistance towards the cost of construction of the school, and to pay a share of the annual operating expenses proportionate to the number of service children enrolled. Clause 4(c) of the agreement stipulated that (a) payments in respect of the operating expenses less provincial grants would be adjusted at the end of each school year and any balance owing would be paid by the Department upon presentation by the school board of a statement of the actual operating expenses, and (b) the school board would refund "any moneys that were in excess of the operating expenses less provincial grants for the preceding school year".

The files reveal that although the Department had been billed each month since September 1956, the effective date of the agreement, for its share of the gross operating expenses, at no time since that date had an adjustment been made in accordance with clause 4(c). As a result, refunds due the Department in July 1963 were estimated to be in excess of \$200,000. Having failed to induce the school board to refund the amount overpaid, the Department took steps in October 1963 to avoid current overpayments by reducing payments to 50% of the operating expenses. The reduced payments approximate the Department's share of the current operating expenses less provincial grants, but make no provision for recovery of the amount already overpaid for the years 1956 to 1963. The Department is continuing to seek a satisfactory settlement.

79. *Cancellation of Canada-United States radar site construction program.* In 1958 the decision was taken to construct "gap filler" radar sites to improve the Continental Air Defence System with the installations to become operational by July 1963. The Canadian and United States authorities agreed that the Royal Canadian Air Force would be responsible for the cost of providing the sites, buildings and services, and the United States Air Force would be responsible for the cost of supplying and installing the radar equipment. In order to reduce the period of vulnerability, it was decided that the construction of sites and the development of the new radar equipment would be carried out concurrently.

The United States authorities considered that, with minor modifications, the required radar units could be developed from radar sets then in inventory. However, by early 1963 the contractor to whom the work had been assigned had not been able to produce satisfactory equipment and as a result the sites did not become operational. As it did not then

appear likely that equipment meeting the required specifications could be developed and installed within the period during which the facilities were deemed essential to the air defence plan, the program was cancelled by mutual agreement.

The cost to Canada of proceeding with its commitments under this program is expected to aggregate \$3.5 million. This is largely accounted for by consultants' fees, property expenses and construction contracts which have amounted to \$3.1 million. Additional costs will include further property expenses, amounts pertaining to termination of leased communication facilities (for one-third of which Canada was liable), and loss incurred on the final disposal of the generators purchased specifically for the gap filler program. The costs will in turn be reduced by whatever amounts can be realized by Crown Assets Disposal Corporation from the sale of sites, buildings, equipment and materials and by the value of materials taken into inventory by the Royal Canadian Air Force.

80. *Additional cost of constructing runway and access taxiways at R.C.A.F. Station, Chatham, N.B.* In December 1961 the Treasury Board authorized entry into a contract for the construction of a runway and access taxiways at the R.C.A.F. Station, Chatham, at an estimated cost, as amended, of \$1,060,000, based on estimated quantities and firm unit prices. Adjustments to the contract to cover extra work and additional quantities at a cost of \$642,000 and increased haulage costs of \$160,000, increased the contract price to \$1,862,000.

In April 1963 the contractor submitted a claim for additional costs of \$506,000 resulting from a truckers' strike, late acquisition of lands, gravel compaction tests, extra excavation and fill, change in specifications for gravel and asphalt and completing asphalt work late in the season. With the approval of the Treasury Board the claim was settled during the year for \$476,000, summarized as follows:

Equipment rental, labour and overhead, standby charges.....	\$ 234,000
Additional costs resulting from renegotiated unit prices.....	93,000
Payment for abandoned work on blending of fines.....	60,000
Additional work.....	37,000
Use of additional plant.....	15,000
Cost of maintaining campsite during strike.....	14,000
Expropriation delays.....	12,000
Financing costs.....	11,000
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	\$ 476,000
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In addition, the Treasury Board authorized payment of \$11,000 for reprocessing by the supplier of asphalt primer which failed to produce satisfactory results because of the cold, wet conditions prevailing in the period during which the work had to be performed.

The final cost of the contract was therefore \$2,349,000.

81. *Cost of terminating an agreement and lease of married quarters, R.C.A.F. Station, Grostenquin, France.* Agreement was reached with the North Atlantic Treaty Organization to reorganize No. 1 Air Division, Royal Canadian Air Force, stationed in Europe. This

involved moving the squadrons of 2 Fighter Wing from Grostenquin, France to Zweibrücken and Baden Soellingen in Germany and closing R.C.A.F. Station, Grostenquin.

As there would be no requirement for married quarters after the Station was closed, the Governor in Council on March 30, 1965 approved the termination of a lease under which the Department had been renting and giving rental guarantees in respect of 443 housing units and 17 school classrooms at nearby St. Avold.

In consideration for termination of the lease and guarantee agreement, which was effective until June 30, 1967, the Department paid the lessor the sum of \$785,000.

82. *Cost of terminating leased communication facilities.* In accordance with an announcement by the Minister of National Defence on March 9, 1964, four radar stations of the Pine Tree Line were closed down and contracts covering rental of on-base telecommunication and ancillary equipment were terminated. Termination charges paid under these contracts amounted to \$309,500 of which Canada's share was \$254,500.

83. *Electrical relays found unsuitable.* In 1958 a contract was awarded to a United States firm for the supply of 3,400 electrical relays for the Royal Canadian Air Force at a cost of \$75,000. When put into service the relays were found to be unsatisfactory and some 3,100 were returned to the supplier for correction. Tests made on reworked relays disclosed that they were unsatisfactory and could not be successfully adapted to their intended use. It was subsequently learned that in attempting to produce a better product, the supplier had deviated from the configuration of the eight original prototype relays that had met all the Air Force requirements and on the strength of which the contract had been awarded.

In 1961 the supplier was requested to make a financial settlement but he contended that while he was prepared to continue to assist in resolving the problem of putting the relays into effective use, he was under no obligation to refund the purchase price. Legal action against the company was not taken as the eight original prototype relays had all been lost or discarded and thus there was no evidence to support the case.

Some 3,000 relays in the hands of the supplier were subsequently reported to Crown Assets Disposal Corporation for disposal and they were purchased by the supplier for a negotiated price of \$610.

84. *Pension awards effective at early age.* In previous Reports reference was made to the number of servicemen being retired at early ages, in some instances under 30. Although the amounts of annuities are not large due to the short periods of service, the potential cost is substantial because of the relatively longer life expectancy. During the year, 391 servicemen aged 40 and under were retired with immediate annuities aggregating \$472,000 annually. In 1963-64 there were 286 servicemen in this category retired with immediate annuities and in 1962-63 the number was 201.

The Department has been reviewing the existing provisions of the Canadian Forces Superannuation Act and has been considering the merits of providing deferred annuities similar to those available to civilian employees but does not contemplate proposing any changes until a more detailed study embracing the implications of the Canada Pension Plan has been completed. (See Appendix 1, item 20.)



85. *Discretionary awards of Service pensions.* In our Reports for 1963 and 1964 (paragraph 65) we noted that in determining pension awards every possible consideration is given to the welfare of the individual serviceman, and that it is sometimes questionable whether a reasonable balance is struck between fairness to the serviceman on the one hand and economy of public funds on the other. In the year under review similar cases were noted as follows:

1. In three instances servicemen with slightly more than the minimum period of service were awarded full pensions, being retired as medically unfit. Information on file indicated that this reason was of secondary importance and that, had the primary reasons been recognized, contributions amounting to some \$11,000 would have been repaid instead of annuities having a present value of about \$85,000 being awarded. In addition, each of the servicemen received the special benefit paid to members released because of integration of the Forces. Pending release, the servicemen attended extensive courses in electronic data processing and programming and retired to continue in that field of employment in the public service and in industry. In each case the new employment was begun on the first day of terminal leave which was approximately three months before release date. Had the servicemen been granted voluntary releases, they would have received a return of pension contributions as noted above, with no entitlement to the special benefit.
2. Four servicemen were awarded full pensions, having been retired compulsorily as medically unfit, with annuities having a present value of \$129,000 and special benefits amounting to \$14,260. The first, a serviceman 32 years of age with 13 years service, over-weight for four years, presumably was unable to regain normal fitness. In the second case, although the Service medical consultant did not consider that the officer's condition warranted a release on medical grounds, he felt that departure from the Service to satisfy his desire to return to farming together with adjustment of his marital problems would bring rapid improvement. In the third case, the serviceman did not require hospitalization and active therapy and it would appear that the reason for the termination of engagement was unsatisfactory service. The fourth serviceman, aged 26 years, was released as disabled after serving ten years although the real reason appeared to be that he was not advantageously employable due to restricted learning ability and a desire to be released to accept civilian employment.
3. Two servicemen of equivalent rank with comparable service and military records were retired with materially different benefits. In one case, an airman was recommended for release on medical grounds in spite of the fact that a personal assessment report at the same time recommended his promotion. He was awarded benefits having a present value of \$22,000. In the other case, a leading seaman was considered disabled by the medical authorities, but the Service Pension Board determined release to be voluntary and he was given a return of contributions of \$2,060.

The Department is endeavouring to achieve a system under which the entitlement to all pensions will be specific. If this were possible it would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. However, no action has yet been taken to revise the present system as recommended by the Public Accounts Committee (see Appendix 1, item 21).

86. *Questionable period of service included when determining pension benefit.* During the year six cases were noted in which officers and men released on pension had been

credited with pensionable service dating in one case from the age of nine and in five other cases from ages eleven and twelve.

File documentation in respect of the early service was fragmentary, statutory declarations being accepted. In response to an Audit Office query about the officer whose service began at age nine, departmental officers replied that while enlistment at this age was contrary to regulations, the officer had not been discharged as being under age and consequently they were satisfied that he had served. In addition, they noted that the review board had agreed that the time claimed was in fact valid and since the officer had elected to contribute to the Canadian Forces Superannuation Account he was eligible to count the service as pensionable.

In our opinion the acceptance of such service for pension purposes is unrealistic and an abuse of the pension privilege.

87. *Unemployment Assistance.* The Unemployment Assistance Act, 1956, c. 26, provides for payment by the federal Government to the provincial and territorial governments of 50% of the cost of providing assistance to persons unemployed and in need. As early as 1958 our Report made reference to ambiguities in the text of the Act and to the resulting difficulties in administration. Subsequent Reports drew attention to further difficulties in administration that had come to our attention. These difficulties arose mainly from the inadequate definition of shareable costs and from the relationship between this program and other programs of social assistance. In our 1961 and 1963 Reports we recommended that consideration be given to the overall co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration.

The Public Accounts Committee in its Fourth Report 1963 concurred in the view that Parliament should give consideration to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. The Committee also suggested that consideration be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field (see Appendix 1, item 4).

During 1965 discussions took place between the federal and provincial governments with a view to introducing a comprehensive assistance plan which would embody assistance to all persons in need, including those presently eligible for social assistance in such forms as unemployment and old age assistance and blind and disabled persons allowances.

During the year the following two additional questionable items of assistance were noted in provincial claims against the federal Government:

OVERLAPPING OF ASSISTANCE.—Section 8 of the agreement entered into with the provinces under the Act permits federal sharing of any additional relief payments made to recipients of other forms of social assistance, including Unemployment Insurance, in the circumstances where the basic assistance is not adequate to meet all of the recipients' needs. In one province Unemployment Insurance benefits received for the first two weeks of entitlement have been disregarded as income in the determination of need.



FULLY-EMPLOYED RECIPIENTS OF ASSISTANCE.—Assistance was being paid in one province to persons fully employed, to enable them to obtain housekeeping services where the spouse was unavailable or incapable of participating in family responsibilities.

88. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* In previous years doubt has been expressed as to whether the terms of the agreements with the various provinces under the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, relating to payments to federal hospitals, were being adhered to in all cases.

In our 1963 Report reference was made to the refusal of the Province of British Columbia to pay Miller Bay Indian Hospital for insured services to insured residents when the accounts were not accompanied by a certificate from the nearby Prince Rupert General Hospital that they had no accommodation available, despite the fact that the Indian hospitals had been included in the Hospital Insurance Agreement with the Province in recognition of their role in providing general hospital care to Indians. Reference was also made to reimbursement at per diem rates set by the Province below cost and below the corresponding rates at the Prince Rupert General Hospital, and to the fact that the Province deems some of the care given insured patients unnecessary and will not pay for it.

The Province of British Columbia has now agreed to accept a maximum of 4,400 patient days per year for which payment will be made to the Miller Bay Indian Hospital without a certificate from the Prince Rupert General Hospital as to the non-availability of accommodation. However, the number of patient days for insured services during 1964 exceeded the allowable limit by 25% and payment for the excess amounting to \$13,000 has been refused by the Province.

In our 1964 Report (paragraph 68) we drew attention to the situation in Alberta where, although the rate payable to federal hospitals has been fixed by provincial regulations, the Province has for several years paid less than this rate on the grounds that the lengths of stay in federal hospitals are considerably above the provincial average.

We also noted that the accounting in federal hospitals generally was not in accordance with the Canadian Hospital Accounting Manual which provides a basic accounting system for purposes of the Act; that accounting and medical records in some Indian hospitals could not be said to be adequate for preparation of the necessary financial returns required by the agreements with the provinces; and that it was not always possible to determine rates by reference to comparable non-federal hospitals because of the specialized nature of many federal institutions. We recommended that steps be taken to bring federal hospital accounting in line with requirements where necessary and that revisions to the agreements should be made to the end that all the terms may be fully complied with.

In the circumstances it is still not possible in all cases to appraise the adequacy of settlements being made by the provinces for services provided under the agreements to insured patients in federal hospitals.

89. *Grant to International Society of Soil Mechanics and Foundation Engineering.* The National Research Council with the approval of the Treasury Board made a grant of \$35,000 to the International Society of Soil Mechanics and Foundation Engineering to



assist in defraying the costs of a conference of the Society being held in Canada. The grant was paid in four instalments, a portion being charged to the appropriations for 1964-65 and the remainder charged to the 1965-66 appropriations.

The Conference was conducted by the National Research Council in the name of the Society. However, the manner in which the Conference's financial affairs were administered raises several questions. Payment of the grant was made by cheques drawn to the order of the Sixth International Conference of Soil Mechanics and Foundation Engineering and delivered to and negotiated by members of the staff of the National Research Council who were members but not officers of the Society. The cheques were deposited in a local bank and the proceeds used for payment of expenses of the Conference by means of cheques signed by the staff members.

A budget of \$125,000, subsequently increased to \$170,000, was established for the Conference. The funds needed over and above the registration fees, sale of conference papers and the Council's grant of \$35,000 were sought in the name of the Society from industry and other interested persons, the letter from the Society asking that cheques be made payable to the "Receiver General of Canada (Soil Mechanics Conference, 1965)". The cheques were deposited in a trust account in the Consolidated Revenue Fund and, since they represented donations to the Crown, receipts were issued by the National Research Council so as to render the payments eligible for deduction by the donors from income that is taxable. The amounts collected in this way together with the other revenues were, with few exceptions, deposited in the Consolidated Revenue Fund before being transferred by the Council to the local bank in order to meet the conference expenses of the Society. The exceptions represented amounts such as fees and proceeds from sales received in the form of currency and which were deposited directly in the local bank account.

We have no adverse criticism of the manner in which the National Research Council and its officers discharged their responsibilities to the Society under these arrangements. We do find, however, that arrangements of this type transgress many of the principles governing effective control of public funds. They permit the mixing of public funds with funds raised by and belonging to a private society and which in our opinion should be administered by that society in its own name and on its own responsibility.

90. *Departmental practices which lack statutory sanction.* In its Eighth Report 1964 the Public Accounts Committee recommended that four practices being followed by the Customs and Excise Division of the Department of National Revenue should receive statutory sanction if they are to be continued (see Appendix 1, item 37). These four practices concern:

- (a) release of goods under customs collector's permission;
- (b) sales of goods unclaimed at Customs;
- (c) duties and taxes on surplus United States Government property sold in Canada; and
- (d) determination of "sale price" for sales tax purposes.

Three additional departmental practices which lack statutory sanction were noted in our 1964 Report, as follows:

paragraph 70—remission of duties on certain motor vehicles and parts;

paragraph 72—refunds of duties and taxes on estimated basis; and  
paragraph 73—refund of duty paid on goods diverted to use other than that for which they were imported.

There were no amendments to the Customs Act during the year and the seven departmental practices referred to above as lacking statutory sanction were continued throughout the year. However, an amendment to the Customs Act in 1965-66 (1965, c.16) gave statutory sanction to items (a) and (c) above. The amendment also provided statutory sanction to the practice referred to in paragraph 70 of our 1964 Report dealing with "remission of duties on certain motor vehicles and parts".

91. *Settlement of sales tax on percentage of total sales.* In previous Reports instances have been cited in which the Department of National Revenue has authorized the computation of sales tax on less than the actual sale price contrary to the provisions of the Excise Tax Act. The Public Accounts Committee in its Eighth Report 1964 (see Appendix 1, item 37) included the following recommendation with respect to this practice:

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

During the year another method of assessing sales tax came to our attention which indicates that proposals designed to give statutory sanction to the collection of sales tax on other than the basis required by present legislation must be carefully examined if a loss of revenue is to be avoided.

In 1962 the Department became aware of an unsatisfactory situation with regard to exemption certificates covering tax-exempt sales of oil filters for internal combustion engines sold to farmers, loggers and fishermen. Following an investigation the Department ascertained that approximately 50% of the oil filters manufactured in Canada for use in internal combustion engines were used under tax-exempt conditions. It therefore ruled, contrary to the provisions of the Act, that henceforth the sales tax of 11% would be applied to only 50% of the total sales of each manufacturer on the understanding that exemption certificates would not be required nor would the Department consider any refund claims with respect to such filters.

Under this arrangement each manufacturer is expected to remit to the Receiver General 11% tax on only 50% of all his sales of filters to unlicensed dealers.

With effect from June 14, 1963, engines used in the logging industry were deleted from the schedule of exemptions. This, of course, reduced the number of oil filters used under tax-exempt conditions but, due to pressure of work, the Department had not yet been able to carry out the necessary investigation to determine a new percentage of sales on which the tax is to be applied.

This matter came to our attention when a routine Excise Tax audit resulted in an additional assessment of \$3,605 which took into consideration changes made in the Excise Tax Act in June 1963. This additional assessment was reduced by \$3,193 because of the departmental ruling issued prior to the changes in the Excise Tax Act and which is still in effect.

92. *Refund of sales tax on materials used in construction of certain buildings.* In paragraph 71 of the 1964 Report attention was directed to section 47A of the Excise Tax Act, 1963, c. 12, which reads as follows:

Where materials have been purchased by or on behalf of

- (a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution, or
- (b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis,

and the tax imposed by Part VI has been paid in respect of those materials, the Minister may, upon application by such institution or organization in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to such institution or organization an amount equal to that tax.

In order to simplify the arrangements by which the refund could be granted, an Order in Council was passed which established a formula designed to determine the "approximate" value of taxable material in a building and to "estimate" the amount of the refund that may be claimed. This formula continued to be the basis for refunds throughout the year under review.

Section 47A directs the Minister to pay an amount equal to the tax that has been paid and there does not appear to be any authority in the Excise Tax Act to pay a refund based on an estimated taxable value of materials incorporated into a building.

93. *Crown-owned houses located at Coutts, Alberta, declared surplus to requirements.* Although there had been no reduction in the staff of the Port of Coutts, four residences, two double garages, one pump house and the land on which these buildings were located were declared surplus to requirements by the Customs and Excise Division, Department of National Revenue. These buildings were originally constructed at a cost of approximately \$61,000 in 1953 for the use of Customs-Excise officers.

Three of the houses and lots have been sold for \$12,600 by Crown Assets Disposal Corporation. The fourth property was offered for sale but only one offer of \$2,000 was received and this was not accepted. The price obtained for the properties sold may be in line with current values but a loss of this magnitude suffered by the Crown on properties built only twelve years previously raises the question of the justification for the construction of the houses in the first place.

94. *Drawback paid on goods destroyed after release from Customs.* In the 1964 Report (paragraph 76) we questioned the right of the Governor in Council to authorize under authority of the Customs Act a drawback of all or part of the duties paid on goods which are destroyed after release from Customs, when section 22(6) of the Financial Administration Act expressly forbids the Governor in Council to remit the tax under the same circumstances.

On the recommendation of the Department, the Governor in Council has since revoked the offending regulation but no steps have been taken to recover the amount of \$2,525 which was remitted illegally.



95. *Commissions for issue of provincial hunting and fishing licences and permits.* Certain customs and immigration officers have been granted permission by their respective departments to issue provincial hunting and fishing licences and permits when requested to do so by provincial governments and to retain as remuneration any commissions paid to them.

In British Columbia federal officers issued fish and game licences amounting to \$250,000 in 1963. The commission on this amount was \$25,000, some officers receiving over \$400. At one port, where thirty federal officers are employed, licences valued at \$115,000 were issued, resulting in commissions of \$11,500.

Since these officers are members of the federal public service employed on a full-time basis, it would appear that commissions earned should be paid to the Crown.

96. *Customs and Excise laboratory.* The primary function of the laboratory is to identify and classify by chemical or physical means various materials described in the Customs Tariff, the Excise Act and other Acts of Parliament administered by the Department of National Revenue and to advise departmental officials on the drafting and enforcement of regulations where chemical or related scientific information is involved.

In 1964-65 the laboratory incurred costs of approximately \$120,000 in analyzing some 9,700 samples of which more than 6,000 came from the Customs Appraisers Branch. This number, however, does not include opinions given verbally because of the need for quick decisions.

A number of the cases involved appeals against assessments of duties but in such cases the Department does not follow the usual practice of requiring that an appeal be accompanied by a deposit, to be returned if the appeal is sustained. Other cases for which no charge is made originate in requests from importers or exporters through the Customs Appraisers Branch, a number of which result in direct benefit to the importers or exporters.

Consideration should be given to the institution of appeal fees and to the adoption of a tariff of fees to be charged for professional services rendered to importers and exporters.

97. *Part-time Customs and Excise Enforcement Officer.* A Customs and Excise officer is usually a full-time employee of the Customs and Excise Division of the Department of National Revenue and his duties include the enforcement of the provisions of the various Acts administered by that Division.

At one small port on the border the sole representative of the Department is a Customs and Excise Enforcement Officer who is employed on a part-time basis. This officer has extensive business interests in the area—mostly catering to the travelling public. A departmental investigation based on complaints resulted in this officer being severely reprimanded by the Department for failure to properly enforce the provisions of the Customs Act. There has been a notable improvement in the officer's work, the files indicating an increase in the revenue collections at this small port and in the issue of tourist exemptions, temporary admissions and automobile and pleasure craft permits. Increases have also taken place in the number of general receipts issued covering abandonment of alcoholic beverages and cigarettes.

In our view there is a conflict of interest in this situation and as the importance of a border crossing point is not necessarily measured by the volume of traffic passing through it, it would be preferable were the interests of the Department looked after by a full-time customs officer who has no business interests in the area being served.

98. *Sight entries.* In certain cases when, due to lack of information or documentation, it is not possible to prepare final customs entries covering imported goods at the time of their release from Customs, the collector may accept what is known as a "sight entry" accompanied by a deposit of a sum of money sufficient, in the judgment of the customs officer, to pay the duties. The importer is subsequently required to complete a "perfecting entry" within a time limit set by the collector. This procedure is provided for by sections 24 and 25 of the Customs Act, R.S., c. 58:

24. (1) If the importer of any goods, or the person authorized to make the declaration required with regard to such goods, makes and subscribes a declaration before the collector or other proper officer, that he cannot, for want of full information, make perfect entry thereof, and takes the oath in such cases provided, then the collector or officer may cause such goods to be landed on a bill of sight for the packages and parcels thereof, by the best description that can be given, and to be seen and examined by such person and at his expense, in the presence of the collector or other proper officer, or of such other officer as is appointed by the said collector or other proper officer, and to be delivered to such person, on his depositing in the hands of the collector or officer a sum of money sufficient in the judgment of the collector or officer to pay the duties thereon.

(2) If the importer does not complete a perfect entry within the time appointed by the collector, the money so deposited shall be taken and held as duty accruing on such goods, and shall be dealt with and accounted for accordingly.

(3) In all cases where such goods are purchased or consigned a sufficient invoice therefor as provided in section 26, shall be produced within the said time appointed by the collector, and in default thereof the importer is liable to a penalty equal to the amount so deposited with the collector recoverable in any court of competent jurisdiction.

25. Such sight entry may be made as aforesaid and the goods may be delivered, if such importer or person as aforesaid makes oath or affirms that the invoice has not been and cannot be produced, and pays to the collector or proper officer aforesaid a sum of money sufficient in the judgment of such collector or officer to pay the duties on such goods; and such sum shall then be held as duties.

The Act requires that when a perfect entry is not completed within the time set by the collector, the deposit shall be accounted for as duty accruing on the goods. In our opinion this precludes any amendment of the time set by the collector after the time has expired.

In practice, extensions beyond the period approved by the collector are often granted even without a request from the importer and refunds of deposits or parts of deposits are made by the collector after expiry of the time limit. Penalties are rarely assessed against importers when documents are not produced in order to perfect the entry.

We are of the opinion that refunds after expiry of the time limit are illegal and failure to assess penalty when an entry is not perfected may result in loss of revenue as it is generally accepted that in such cases the deposit based on the original appraiser's estimate of the duties was insufficient to cover the duties.

99. *Bonded warehouses.* The trend in the Customs and Excise Division of the Department of National Revenue is to effect speedier release of goods to importers by deferring payment of duties at time of entry. Similarly, the requirement that a customs officer be present whenever goods are being released from a bonded warehouse has been dispensed with by eliminating the dual lock procedure, as recommended by the Royal Commission on Government Organization. These concessions benefit the importers but also involve a calculated risk in the collection of the revenue.

When the customs surcharge was imposed in 1962, a number of importers made use of bonded warehouses in order to delay payment of customs duty in the hope that by the time the goods were actually required, the surcharge might have been removed. This increased use of such facilities inevitably involved the Department in additional supervision costs. It is not uncommon for goods to remain, with the approval of the Governor in Council, in customs bonded warehouses for periods in excess of five years.

In these days of rapid communication and transportation the need for bonded warehouses may not be as great as it once was. We asked the Department whether any consideration had been given to amending the Customs Act in order to eliminate customs bonded warehouses for storage of imported goods for lengthy periods of time without payment of duty and if it was in a position to establish whether the licence and special service fees collected from proprietors of warehouses were sufficient to meet the departmental costs of supervising and controlling these warehouses.

The Department was of the opinion that elimination of bonded warehouses could restrict current trade practices and large volume buying by importers. It also pointed out that the bonding of warehouse establishments allows an individual to operate a bonded warehouse in conjunction with a retail sales outlet permitting duty free merchandise to be sold for export.

The Department informed us that the regulations and procedures respecting customs bonded warehouses are under review and that it proposed to conduct an administrative cost analysis of warehousing operations in order to establish a new scale of licensing fees.

100. *Possible loss of excise tax.* The excise tax on automobiles was repealed on June 21, 1961 and tax paid on automobiles in dealers' stocks on that day was refunded. In the fall of 1963 the accounting transactions of one dealer who had received a refund of tax amounting to \$16,700 figured rather prominently in a court case in which it was disclosed that he had been in the habit of overstating car inventories in order to deceive the car manufacturer who financed the inventories.

Payment of the refund claim by the Department was based solely on figures supplied by the manufacturer and certified by the car dealer in question.

Although the Department took no action at the time these disclosures became public knowledge, it did review the file at our request during the year and came to the conclusion that there is a possibility that fifteen vehicles on which excise tax of \$2,375 had been refunded were not actually in the inventory on June 21, 1961, having been disposed of prior to that date. The Department explained that it would now be extremely difficult to establish definitely what vehicles were actually on hand on June 21, 1961 because the



departmental officer who approved the claim is now deceased, the claimant's franchise agreement with the automobile manufacturer has been cancelled, the records of the claimant, now in bankruptcy, are not readily available and, furthermore, are not considered accurate. No attempt has been made to effect recovery.

101. *Charitable donations.* Section 27(1)(a) of the Income Tax Act, R.S., c.148, provides that a taxpayer may deduct from net income the aggregate of gifts to charitable organizations in Canada up to 10% of net income. In the taxation year 1963—the last year for which statistics are available—charitable donations claimed as deductions amounted to \$308,431,000 in the case of individuals and \$41,700,000 in the case of corporations.

The word “charitable” is not defined in the Act and the Department in administering this section relies on Common Law which recognizes “charity” as comprising four principal activities: the relief of poverty, the advancement of education, the advancement of religion, and other activities beneficial to the community not falling under any of the preceding heads.

Many charities are well known to the taxing authorities and receipts issued for donations are generally accepted without question when attached to a taxpayer's return in support of a deduction for a donation he has made to a charitable organization. There is no requirement that charitable organizations be registered with the Department but in practice provision is made for formal approval which an organization may seek if it so wishes. Such approval is, of course, a necessity in the case of organizations which are not known and whose receipts might not be accepted by the taxing authorities in the absence of prior approval. The Department maintains, for its own use, a list of approved charitable organizations which currently includes over 1,200 names.

A perusal of this list quickly gives the impression that all of the organizations exist for worthy purposes, but it is not so readily apparent that all are concerned with poverty, education, religion or purposes beneficial to the community. For obvious reasons assistance given personally by a taxpayer to a poor family for the education of one of its children cannot be recognized as charity for the purposes of the Income Tax Act. However, an equivalent amount given by the same individual to a professional association to which he may belong to be used to recognize scholastic achievement by a student of the association is regarded as a charitable donation.

Also included on the list are organizations which are set up in Canada for the collection of funds to be used for worthy purposes in other countries. It might be questionable whether these should be regarded as “charitable organizations in Canada” within the meaning of section 27(1)(a) of the Act.

Charitable organizations which are incorporated must file annual income tax returns including financial statements, but once any organization has been recognized the Department exercises no regulatory control, nor is there any other authority in Canada which exercises control such as requiring the filing of annual returns accompanied by financial statements giving a report of charitable activities. In the absence of such a control it is possible for organizations to change their character or even to cease serving any useful purposes, yet their receipts might continue to be accepted as evidence of genuine donations to bona fide charitable organizations.

Consideration should be given to the setting up of adequate controls over the many charitable organizations now recognized.

102. *Remission of income tax on per diem allowances.* Per diem allowances ranging from \$50 to \$60 were granted to each of the members of the Board of Trustees of the Maritime Transportation Unions. The income tax normally payable on these allowances was remitted by the Governor in Council under authority of section 22 of the Financial Administration Act.

Each of the departmental submissions to the Governor in Council and each of the remitting Orders in Council referred to the per diem allowances as remuneration and went on to state that any remuneration payable to the members of the Board of Trustees of the Maritime Transportation Unions would have been tax-exempt if the appointments had been made under the Inquiries Act, R.S., c.154. In actual fact, section 5 (1) (b) of the Income Tax Act grants to a person who was appointed or whose services were engaged pursuant to the Inquiries Act exemption from tax of "travelling or personal or living expense allowances" paid under authority of the Treasury Board. In other words, it is expense allowances paid to persons appointed under the Inquiries Act and not remuneration allowances to those persons which are exempt from income tax.

This mis-statement of fact in the submissions and the resulting Orders in Council in no way affects the validity of the remissions granted and the remissions themselves are regarded as being in order.

It is a matter of concern, however, when the Governor in Council is provided with incorrect information which may have had a bearing on the decision to grant the remissions requested by the Department of Labour. In the absence of amending Orders in Council which would indicate that the Governor in Council had been informed of the erroneous information provided, the matter is drawn to attention.

103. *Inadequate accounting and financial control procedures, Fort Smith, N.W.T.* The Department of Northern Affairs and National Resources has established headquarters for the administration of the Mackenzie District of the Northwest Territories at Fort Smith. The headquarters for one of the three regions into which the District has been divided for administrative purposes is located in the same community.

In 1964 we made a preliminary study of activities centered at Fort Smith to obtain first-hand information for the framing of a program of audit for the combined district and regional office, and to reach a decision regarding the extent to which the expansion of departmental activities in the North now required field audits in the area. An examination in June 1965 disclosed the following serious deficiencies in the accounting and financial control procedures:

1. Internal control over cash receipts was lacking in that one employee was permitted to receive and record receipts, maintain or have access to accounts receivable ledgers and to have custody of the pre-numbered forms used for billing purposes.
2. Departmental invoices were not subject to review and approval by unit heads before release. Collection and follow-up action respecting accounts receivable was inadequate. Numerous outstanding accounts dated back to 1961 and at March 31, 1965 accounts



outstanding for more than one year totalled \$23,300, which was \$8,100 in excess of items in the same category at the preceding year-end. Credit for additional services had been extended to debtors with long overdue accounts.

3. The Fort Smith office performs accounting and collection services for the Department of National Health and Welfare. Unpaid invoices in respect of services performed for patients at a local clinic and at nursing stations at other points are turned over to the Department of Northern Affairs and National Resources for recording and collection action. Since no control account was being maintained over the accounts receivable ledger, individual ledger cards could be misplaced or lost without this becoming evident. Although the recording of receipts was up to date at the time of the audit, billings had not been posted since the end of April 1965. Even on this basis, a listing of the outstanding accounts totalled over \$25,000. It was evident that appropriate action was not being taken to effect collection of old accounts and comparatively few individuals to whom credit was extended for medical services were settling their accounts.
4. The Department has been authorized to sell electric power, produced from its own generating plants or from facilities operated by the Department of Transport, to private consumers in remote locations where alternative sources of supply are not available. Administration, meter readings, billings and collections for this service in areas other than Fort Smith have been largely delegated to area officers. In our opinion, centralized control over these matters is desirable and the necessary steps should be taken to effect this at the regional headquarters.
5. Billings and collections for sewer and water services at Fort Smith have been handled by the Department, although the municipality was expected to assume responsibility in the matter on July 1, 1965. Meter readings and billings were found to be considerably in arrears. In June 1965 private consumers had been billed for services only to February 28, 1965. Even with the arrears in billings, outstanding accounts amounted to more than \$17,000 on June 15th. Internal accounting control was inadequate in that there was no control account over the individual accounts and the employees concerned with billing and the handling of cash had access to these accounts. We were later informed that the municipality did take over the service on July 1, 1965 and that the outstanding accounts had been reduced to \$1,160.
6. Motor vehicle licence plates issued initially from Fort Smith are sold at a number of locations. No accounting of unsold plates on hand at the year-end is made to Fort Smith and we were informed that many are sold to collectors for a nominal amount after the expiry date. The lack of internal control does not provide assurance that all revenue from this source is brought to account.
7. Although instructions are that a departmental officer take a physical inventory of liquor at the Fort Smith store at the end of each month, our June examination showed that the latest such count had been made on March 31, 1965.
8. The settlement of outstanding accounts payable was considerably in arrears, with delays of several months being not uncommon.

On October 18, 1965 we were informed by the Department that a serious view had been taken of our report and that steps to meet the criticisms had already been initiated. The Department advised us that

the majority of the problems result from insufficient staff in Fort Smith. Many employees unfortunately have had to be hired on a casual basis and consequently our turnover has been quite high. For some months now we have been working to correct this situation through recruitment of senior financial officers.



Although operations at Fort Smith are unique in that both district and subordinate regional activities are centered at the one location, the conditions revealed by our examination indicate clearly that the audit coverage of northern points, which has been very limited, will have to be extended as soon as this can be arranged.

104. *Inadequate control of stores at northern locations.* In its report on "Northern Affairs", the Royal Commission on Government Organization pointed out that the relative isolation of the North made it essential that departmental operations be integrated in a number of matters, including supply and materials management.

One of the first areas to be considered for integrated operations was Frobisher Bay, N.W.T., where a committee, on which all government departments and agencies with interests in the area were represented, reviewed common services and recommended divisions of responsibility. One conclusion reached was that the Department of Northern Affairs and National Resources should take over the operation of a consolidated stores set-up to meet requirements for supplies. The planning in that regard initially contemplated the procedure becoming effective in November 1964, but although April 1965 was later regarded as a more practicable date, consolidation has not yet been possible. The primary reason for the situation is that preliminary surveys showed that the control and management of the Department's own stores was such that the value of the inventory could not readily be determined, and in this circumstance the Department was in no position to undertake the added responsibility of management of stores for other departments. Furthermore, an assessment of the situation made it apparent that management and control had been inadequate for several years.

Stockpiling of stores is necessary in the North for a number of reasons, including the short shipping season, transportation difficulties and climatic conditions. In 1960 the Department sought authority to operate a revolving fund for the purpose of acquiring and managing stores of its Northern Administration Branch. Vote 574 of Appropriation Act No. 6, 1960, provided this, with the amount to be charged to the fund at any time not to exceed \$500,000. Of this amount, \$300,000 was allocated for operations centered at Fort Smith and, effective April 1, 1962, \$200,000 for Frobisher Bay. Almost immediately it became apparent that the amount provided for Frobisher Bay was inadequate. The value of stores on hand (including a substantial quantity of obsolete and unusable items) which was to be a first charge against the revolving fund was in excess of the amount authorized, even after a decision was made not to bring certain materials within the fund. Nevertheless, action to increase the fund or at least to have the obsolete and unusable items deleted was not taken. Since the fund was not sufficient to finance operations, supplies were purchased and stockpiled from appropriations. In July 1964 it was stated that the stores operation at this locale was "on a more businesslike basis" and "well under control" and that an inventory taken a few months previously had produced a valuation of \$309,000.

However, when arrangements were being made to take over the stores of other departments at Frobisher Bay, it was found that control was still lacking. Not only were the officially recorded stores not capable of verification but considerable quantities of construction and other materials, which had come into the possession of the Department following the withdrawal of the American defence forces of the Strategic Air Command or

which had been abandoned by contractors, had not been taken on charge and their value was not known. Arrangements were made to have an officer of the Department of Defence Production visit Frobisher Bay in January 1965 to survey the situation and to make recommendations for proper stores handling. Acting on the resulting report, stores specialists were engaged to make a complete physical inventory, catalogue the stock, reconcile stock records and reorganize the stores layout. This undertaking is not expected to be completed until November 1965. The Management Analysis Division of the Civil Service Commission was also requested to study present procedures, design a stores system to meet the requirements of the area and prepare a procedure manual for the guidance of employees. The results of this study became available to the Department in August 1965 and implementation of recommendations is now under way.

Reference has been made above to the stores operation at Fort Smith. The examination in June 1965 referred to in paragraph 103 disclosed weaknesses in inventory control at this establishment also. The results of a physical inventory of stores undertaken by departmental personnel in October 1964 but not yet completed, made even the approximate accuracy of the amount of \$164,000 charged to the revolving fund extremely doubtful.

105. *Second class mail.* In its Fourth Report 1963 the Public Accounts Committee expressed the belief that early consideration should be given by Parliament to the alternatives of revising upward the rates of postage on Canadian publications or providing an annual appropriation in an amount sufficient to cover the loss to the Post Office Department from handling second class mail (Appendix 1, item 1). The Committee requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent Committees might give consideration to it.

The costs of handling the various classes of mail have in the past been estimated by the Department by means of a cost ascertainment procedure in which time studies were used. The last departmental time study was in 1961-62.

In 1964 the Department engaged a firm of consultants to examine its cost ascertainment procedures with a view to establishing accurate costs with respect to the various classes of mail. The procedures recommended by the consultants were put into effect only in January 1965 and no figures are available to indicate the loss in handling second class mail for the year 1964-65. The loss in 1963-64 had been estimated at \$35 million which included \$1.5 million attributable to a special second class rate on newspapers and magazines mailed by the public. This rate was discontinued effective April 1, 1964.

During the year second class revenues increased by \$250,000 to \$8,433,000. The Department attributes the increase in part to the increase in postage rates on third class matter which was effective April 1, 1964 and which induced a large increase in applications for second class privileges for publications previously mailed as third class matter. With effect from April 1, 1964, there was also an increase in the postage rate on publications sent to foreign countries other than the Americas.

106. *Second class mail—free mailing privileges.* Section 11 of the Post Office Act, R.S., c. 212, permits newspapers and periodicals that are published less frequently than daily but not less than once a month, to mail a maximum of 2,500 copies per issue free of postage, subject to the following conditions:



- (1) addressees must be bona fide subscribers or newsdealers;
- (2) addressees must reside or do business within a 40-mile radius of the office of publication;
- (3) the office of publication must be located in a city, town or village with a population of not more than 10,000 persons.

The 1961 census indicated that there were 598,000 people in the Province of New Brunswick and that the town of Campbellton had a population of 9,873. In 1963 the Dominion Bureau of Statistics estimated the Province of New Brunswick to have a population of 614,000 persons.

The Centennial Commission, which is authorized to make grants on a per capita basis to provinces for local projects of a lasting nature, accepted the published intercensal estimates of the Dominion Bureau of Statistics for the year ended December 31, 1963 which show the population for New Brunswick at 614,000. Accordingly the Province, using the 614,000 total, revised the population figures of the towns and cities, giving Campbellton a population of 10,130.

In administering section 11 of the Post Office Act, the Post Office Department, upon learning the basis upon which centennial grants were to be made, cancelled the free mailing privileges previously enjoyed by three newspapers in the area. However, the publishers protested, maintaining that the 1961 census figure of 9,873 should stand and the Department re-instated the free mailing privilege.

107. *City transportation services.* In an examination of payments by the Post Office Department for street letter box clearance in one large city, we observed certain factors of time, trips, etc., as set out in the contract specifications that did not correspond with the actual performance. It appeared that running time plus time allowances as scheduled in the contract and on which payment is based was substantially in excess of the actual hours worked. Our test, projected on an annual basis for that city, indicated that idle time totalled some 19,000 hours, costing an estimated \$68,000.

Time allowances are designed to compensate the contractor for unavoidable delays due to traffic congestion, adverse weather conditions, detours, etc., as well as minor extensions or changes in routes. The Department conceded there might be a tendency for such allowances to be extended beyond reasonable limits and undertook to have a check made of the various routes with a view to adjusting the schedules as required.

The Department has since informed us that this survey revealed certain anomalies in the service provided, in addition to inconsistencies in time allowances. The entire collection service in that city has been re-designed to eliminate these anomalies and to permit an integrated work flow. A saving of approximately \$38,000 per annum has resulted.

108. *Postage stamps destroyed.* During the year the Post Office Department purchased postage stamps to a total face value of \$109,470,000 at a cost of \$1,323,000. In the same period, stamps having a face value of \$5,272,000 and an estimated cost of \$64,000 were destroyed or held for destruction at the year-end because they were spoiled in handling, unsaleable or returned from postmasters in lots too small for economical re-issue.

Included among the stamps destroyed or held for destruction were approximately 53 million stamps, costing \$16,000, of a special 1964 Christmas issue of 412 million stamps



purchased at a cost of \$125,000. The Department over-estimated the demand for these stamps and was precluded from using the issue in another year because the stamps were dated "Christmas 1964".

109. *Write-off of obsolete stores.* Section 60(2) of the Financial Administration Act provides as follows:

Where a board of survey constituted under subsection (1) recommends the deletion from inventory of any obsolete or unserviceable stores or materials or any stores or materials lost or destroyed, the appropriate Minister with the approval of the Treasury Board, may direct the deletion of all or any part of such stores or materials from the inventory, but the value of stores or materials so deleted shall not be credited to a revolving fund except with the authority of Parliament.

The Treasury Board, under the provisions of this section, approved the deletion of stores which had cost \$19,667 from the inventory of the Post Office Department and approved the inclusion of an item in the Supplementary Estimates in order to reimburse the Post Office Revolving Fund for the cost of these stores items which had become obsolete in inventory.

The amount appeared in Supplementary Estimates (D), Vote 1d, 1964-65, under "Postal Services, \$328,700", as an allotment for "Mail Bags and Letter Carrier Satchels, \$19,700", rather than as a separate supplementary item in such a manner as to indicate that the amount was to recoup the Post Office Revolving Fund for losses due to obsolescence. The wording of this Estimates item does not convey to Parliament its real purpose.

110. *Charges for Post Office lock boxes and bag service.* Post Office patrons who receive incoming mail in lock boxes are charged an annual rental varying from \$2 to \$18 depending on the size of the box and on whether the patron lives outside or inside of the letter carrier area.

Some patrons who have a very large volume of incoming mail do not rent a lock box but are provided by the Post Office with what is known as "bag service" for which they are charged an amount of \$10 or \$18 per annum depending on whether they reside outside or inside of the letter carrier area.

There are other patrons with a heavy volume of incoming mail who rent a lock box (usually but not necessarily one of the largest) although the box cannot handle the mail volume so that bag service has to be provided. In some cases the box remains unused, all the mail being put up in bags for the patron. In such cases the lock box is generally retained because the patron wishes to have a post office box number as an address, but although he has the use of the box and is also receiving bag service, he pays only the annual lock box rental, no charge being made for the bag service.

We have pointed out to the Department that the provision of a lock box as well as bag service for the one annual fee not only provides the patron with a free service not available to other patrons, but may be tying up lock boxes required for other patrons.

The Department has advised us that the situation has been under study but a solution has not yet been found because of "the complexity of the problem and possible effect any change would have on our box assemblies and post offices".

111. *Post Office Savings Bank.* At March 31, 1965 the balance on deposit in approximately 300,000 accounts in the Post Office Savings Bank was \$23,255,000, including approximately 200,000 accounts with an aggregate balance of \$2,801,000 classified as dormant and unclaimed. In many of these latter accounts the balance of principal has remained unchanged for many years.

Section 52(4) of the Post Office Act, R.S., c. 212, provides that:

Interest on deposits in the Post Office Savings Bank shall be added to and become part of the principal as of the 31st day of March in each year.

However, in order to keep costs down, interest earned by these dormant and unclaimed accounts, which is a charge to annual expenditure, is not being credited to the individual accounts but is calculated on the balances of the control accounts only and credited to a relatively few interest accounts. Interest accumulated in this manner to March 31, 1965 totalled almost \$1 million and is increasing at the rate of \$69,000 annually.

The Department is now giving consideration to the manner in which the Post Office Act could be amended in order that it might deal with unclaimed balances in accounts of the Post Office Savings Bank in a manner similar to that in which unclaimed balances in chartered banks are handled.

112. *Construction of headquarters building, Department of National Health and Welfare.* The lowest tender received in 1961 by the Department of Public Works for the construction of a new headquarters building for the Department of National Health and Welfare was \$7,225,000. The Treasury Board considered this amount to be too high and instructed the Department of Public Works to reduce it by negotiation with the low bidder.

It was decided that a substantial reduction could be effected by a number of changes in the specifications and by relocating the departmental cafeteria in the basement instead of following the original design which proposed its construction as a separate adjacent building. A net reduction of \$512,000 for these changes was offered by the successful tenderer after adding \$26,000 for the work involved in installing the cafeteria in what was previously to have been an unfinished basement area. The alterations in the plans resulted in a negotiated contract price of \$6,713,000.

The Department of National Health and Welfare was not satisfied with the new basement plan and called for a number of alterations. The Department of Public Works also required some changes. When the contractor quoted a price of approximately \$260,000 for the work involved, the Department of National Health and Welfare was informed that the extra cost was unacceptable to the Treasury Board and that all changes would have to be kept within the limit of \$26,000 previously approved. This resulted in further plan changes.

The plan changes involved in the initial price reduction would have been made by the consulting architects without charge but subsequent changes were so numerous and extensive that they asked for and were paid \$56,825 as an additional fee for what was described as "abandoned work and re-design attributable to major changes".

Payments for the construction of the building to date have totalled \$7,264,000, consisting of \$6,865,000 paid to the contractor and \$399,000 to the consulting architects.

The increase in the construction cost over the price negotiated earlier is due to additional items of work, primarily in respect of the foundation and the podium area.

113. *Cost of construction of the National Gallery.* In May 1957 a contract was awarded by the Department of Public Works for the construction of a building in Ottawa for the National Gallery of Canada. The contract specified a fixed price of \$4,986,000 with delivery of the building in August 1959.

At the request of the Department of Public Works, this fixed price contract was amended by the Treasury Board six times. The building, which cost \$5,218,000, was finally accepted by the Department on February 3, 1960. The additional costs of \$232,000 were caused mainly by circumstances which had not been foreseen when the contract was entered into.

Site excavation work was delayed by the discovery of clay seams in the rock, which required further core drilling to determine the adequacy of the foundation design. A further delay occurred while underpinning was placed to support electrical ducts located beneath an adjacent sidewalk. In addition, National Gallery officials requested that changes be made in the partitioning and luminous ceilings, etc. These changes necessarily interrupted the contractor's timetable and added materially to the final cost.

Following delivery of the building, the contractor submitted a delay claim covering his site administration costs, loss of productive equipment time and increased heating and other costs. The claim was paid in the amount of \$35,632 in August 1964.

114. *Cost of revised and abandoned plans for buildings in Ottawa.* In March 1961 two firms of consulting architects were engaged to prepare plans and specifications and to supervise construction of a headquarters administration building in the Confederation Heights area for the Department of Northern Affairs and National Resources, together with an adjoining headquarters building for the Department of Forestry. The complex was also to include accommodation for the Canadian Government Travel Bureau and a unit of the Department of Public Printing and Stationery. The estimated cost of construction was \$9,987,000 with architects' fees amounting to \$484,000.

The architects completed the plans and specifications for the project by early 1963. Subsequently it was decided not to locate the Department of Forestry and the Canadian Government Travel Bureau in the complex. The architects thereupon redesigned the plans for the remaining known occupants. It later developed that the space planned for the unit of the Department of Public Printing and Stationery was not required.

In November 1963 strenuous objection to the Confederation Heights location was lodged by the Minister of Northern Affairs and National Resources on the grounds that the Department should be located in the central part of the city "with ready access to the House of Commons". This objection led to cancellation of the proposal to locate the Department at Confederation Heights and it has since been accommodated in a new downtown building, 219,000 square feet of space having been leased for a period of ten years at an annual rental of \$688,000. The Department had previously occupied 120,000 square feet in a number of down-town buildings with an annual rental value of approximately \$351,000.



In May 1964 the Treasury Board approved in principle modification of the Confederation Heights building plans to adapt them for an administration building for the Taxation Division of the Department of National Revenue. In order to salvage as much as possible of the plans already completed, the Department of Public Works proposes to retain the building in its original design except that it will be reduced from seven to five storeys with the cost of construction estimated at \$6 million. It also proposes to construct a building in the same area to house a data computer centre for the Department of National Revenue and a cafeteria building to be linked to the administration building, the estimated cost of these being placed at \$9 million.

As a result of this re-planning of the whole project, it is estimated that the fees which will finally be paid to the two firms of architects will approximate \$936,000, including an expense of about \$220,000 resulting from the revisions to and the abandonment of plans in respect of the original concept.

115. *Cost of abandoned plans for headquarters building, Department of Transport.* In 1957 the Department of Transport requested a new headquarters building in Ottawa and in 1960 the Department of Public Works agreed that provision should be made for a suitable building in the Confederation Heights area. Preliminary plans were for a building expected in October 1961 to cost between \$10 million and \$12 million.

Two firms of consulting architects were appointed in November 1961 to prepare plans and specifications and to supervise construction. However, following consideration of a master plan prepared for the National Capital Commission for the future development of federally-owned property in the Confederation Square area, the decision was taken in September 1963 that the proposed Department of Transport building should be located in this area.

It was decided in June 1964 to discontinue the services of the consulting architects and the contract was cancelled, with the consultants, who had done considerable work on the plans for the proposed building, being paid \$80,580 for their services.

116. *Cost of modifying heating plant in new building, Toronto.* The Mackenzie Building was built to house government departments in Toronto and was accepted from the contractors in stages between November 1959 and April 1960. Its final cost was \$13,087,000.

At the request of the Department of Public Works, the consulting architects provided for the use of coal in heating and specified underfeed ram type stokers. Over the period of a year during construction the contractor operated the boiler plant for temporary heating using the type of coal recommended by the stoker manufacturer.

Difficulties in operating the heating plant were encountered by the Department shortly after it took delivery of the building. The architects denied responsibility, pointing out that they had advised the Department of the importance of purchasing coal based on the recommendations of the manufacturer of the installed equipment but that their advice had not been taken.

In 1964 the Department converted the heating plant from coal to natural gas, with oil as a stand-by, at a cost of \$27,389.

117. *Relationship of site cost to building cost, Woodstock, Ont.* In considering proposals for the construction of federal buildings, the Treasury Board follows a general rule that costs of the site should range between 15% and 25% of building costs. If a greater percentage cost appears, the department concerned is required to explain in detail the special circumstances necessitating the higher cost.

In the case of a new federal building in Woodstock, the site cost exceeded 52% of the building cost when the proposals of the Department of Public Works were set aside in favour of those made by municipal officials and others.

In September 1960 the Department received the concurrence of the Treasury Board's Advisory Committee on Accommodation Standards to a proposal for erection of a federal building to house government departments at Woodstock at an estimated cost of \$425,000. The site approved by the Committee was a Crown-owned armoury property and an adjoining property which it was expected could be acquired for approximately \$60,000. Its location, less than two blocks from the main street and adjacent to the provincial buildings, was reported to be acceptable to the municipality.

Shortly after taking this decision the Department was asked by the Mayor and others to consider another site which it was claimed would prove more beneficial to the municipality in its overall planning and would help to rehabilitate a depressed section of the city. While the location of this site compared favourably with the original one, the Department viewed with concern the increased cost of acquiring it.

However, in February 1962 it decided to proceed with the site favoured by the local officials and expropriated six properties required for siting and parking facilities.

During 1962 and 1963 the Department submitted proposals for settlements to the Treasury Board for approval. In September 1962 the Board stated that although the land costs appeared unnecessarily high, "abandonment of the properties would result in very serious claims being submitted against the Crown which in turn would tend to outweigh any savings to be realized by reverting to the Armoury or some other less costly site".

The total cost of the site including payments to the former owners, to certain tenants in respect of leasehold interests, legal services, demolition of the buildings, etc., amounted to \$283,000. The final cost of the building erected on the site, with associated costs including consultants' fees, will approximate \$537,000.

118. *Cost of little-used railway spur line, Pointe-au-Père, Que.* In 1958 the Department of Public Works decided to proceed with the construction of a deep water winter port at Pointe-au-Père costing approximately \$3 million. Included in this development was to be a spur line,  $3\frac{1}{2}$  miles long, from the Canadian National Railways main line to the proposed port. The Department estimated the cost of such a spur line at \$600,000 and invited the Railways to give favourable consideration to this investment as their share of the overall project.

The Railways declined, stating that their assessment of the situation was that the possible new rail traffic which might be expected to result from the building of the line would not justify their assuming "all or part of the capital cost and/or the related annual maintenance cost".

In 1960 the Department obtained authority from the Treasury Board to enter into a standard industrial siding agreement with the Railways which provided that the Department would accept financial responsibility for the acquisition of the site, the construction of the right of way, maintenance and snow removal. The Railways agreed to install the rails and associated equipment for which an annual rental would be required.

Construction of the spur line was completed in 1961 at a cost of \$401,000 to the Department, whereupon it transferred the facilities to the Department of Transport for control and management, with the latter Department becoming responsible for the payment of the annual rental of \$4,169 for the trackage. However, no annual rental has been paid yet.

The Department of Transport was concerned that responsibility for this spur line should be thrust upon it in this way and asked for a clarification of policy. As a result, the Treasury Board in 1963 approved of a new policy to be followed in future with respect to the installation of railway tracks on government wharves. This policy provides that tracks at new wharves are to be installed only at the request and expense of a railway, with the railway determining whether the traffic involved would justify such consideration.

The wisdom of this policy is illustrated by the use made of the spur line since its construction at Pointe-au-Père. Only four carloads were handled on the spur in 1962 and none in 1963. The primary use of the track has evidently been to bring railway cars to the wharf in winter to serve as a windbreak for ferry traffic.

119. *Failure to provide for subsidy review.* In October 1962 a company which proposed to construct a new floating dry dock at Montreal approached the Department of Public Works to obtain financial assistance under the Dry Docks Subsidies Act, R.S., c. 91. The Act provides that the Governor in Council may authorize the payment of a subsidy in respect of dry docks in the category contemplated, not exceeding  $4\frac{1}{2}\%$  per annum of the cost of the work, to a maximum of \$4 million, during a period not in excess of 35 years. On this basis the Department sought approval in principle from the Treasury Board to enter into an agreement to pay a subsidy of \$180,000 per annum if the private capital outlay was at least \$4 million.

The Board concurred with the Department's proposal on condition that the agreement provide that the subsidy be the subject of review at reasonable intervals, three to five years being mentioned. If these periodic reviews established that the net operating revenue, together with the subsidy, had resulted in a return in excess of 12% on the private capital investment, provision was to be made for a downward adjustment of the subsidy for the ensuing period.

The proposed dry dock could not qualify as a floating dry dock of the first class, as defined by the Dry Docks Subsidies Act, because it would not be capable of receiving and repairing therein "with ease and safety the largest ships or vessels of the British Navy existing at the time the contract is entered into". This impediment was, however, removed by Public Works Vote 132e, Appropriation Act No. 4, 1964, assented to on April 13, 1964, the text of which was:



Payment to Canadian Vickers Limited of a subsidy in respect of a dry dock in Montreal, Quebec, in accordance with the Dry Docks Subsidies Act, Chapter 91, R.S., as though it were a dry dock of the first class described by section 7(a) of the Act.....\$1.

On April 28, 1964 the Department of Public Works reported to the Governor in Council that the Canadian Maritime Commission had been authorized to pay a subsidy of \$2,198,000 towards the cost of the dock under the Ship Construction Assistance Regulations and that this, when applied in reduction of the cost of the dry dock estimated by the company at \$6,299,000, would reduce the company's investment to \$4,101,000. Accordingly authority was sought and obtained to enter into an agreement for the payment of an operating subsidy under the Dry Docks Subsidies Act of \$180,000 per annum for a period of 35 years.

The Department, however, failed to advise the Governor in Council of the condition imposed by the Treasury Board in 1962 whereby the subsidy should be reviewed at periodic intervals to determine whether net operating revenue, together with the subsidy, was resulting in a return in excess of 12% on the company's own investment, and this proviso was not included in the agreement signed by the Department with the company in June 1964.

The Department was asked for an explanation and we were informed that the Board's requirement had been inadvertently overlooked. In November 1965 the Department informed the company that, in the circumstances, there was no alternative but to amend the agreement by the inclusion of the necessary proviso.

120. *Cost of activating water supply system, Churchill, Man.* In 1960 a contract was placed by the Department of Public Works for the construction of an access road, an intake structure and supply lines to provide a water supply system at Churchill, which was completed in 1961 at a cost of \$932,000.

The construction of an intake pumphouse had been planned so that the supply lines could be activated shortly after their completion without lying dormant during the winter season. However, the contract for the pumphouse was not awarded until April 1962. It was scheduled for completion in October 1962 which date was eventually extended to November 1963 because of difficult excavation problems. It was completed by August 1963 at a cost of \$257,000.

The delay in proceeding with the construction of the pumphouse meant that the water supply system could not be placed in operation before the 1961 freeze-up. The lines were de-watered to prevent frost damage and a resident engineer from the firm of consultants retained for the project was authorized to remain at the site during the winter to ensure that air pressure was maintained to guard against water infiltration. Notwithstanding this precaution, a partial blockage caused by ice was encountered when the lines were tested in October 1962. Although the pumphouse contractor made preliminary efforts to clear the lines, the situation became more critical and in December 1962 the Department instructed the consulting engineers to take emergency action. It was not until the following November that all lines were activated.

In addition to their charges for consulting services in the construction of the water supply system, the consulting engineers claimed an additional \$141,000 for their services

in freeing the lines and activating the system, and these claims for the most part were paid prior to March 31, 1965. The Department has taken the position that insufficient care was taken by the consultants to ensure that the lines remained water-free during the freezing period. The consulting engineers maintain that the basic cause of the mishap was that the supply lines were built considerably in advance of the pumphouse.

The consulting engineers have assumed \$10,000 of the cost without prejudice to their position.

121. *Additional costs due to inaccurate specifications.* In May 1962 the Department of Public Works awarded a contract in the amount of \$118,000 for dredging in the harbour at Sault Ste. Marie, Ont.

The pre-dredging boring program carried out by departmental engineers had shown no bedrock above grade, although it was stated that some occurred between grade and sub-grade. The contractor reported that he had encountered either very large boulders or extremely hard shelves of flat sandstone and as a consequence was obtaining little or no production and suffering more than average wear and tear on his equipment. Shortly afterwards the departmental district engineer informed the Department that contrary to the information provided by the pre-dredging borings, sweeping, sounding and inspection by divers had revealed substantial areas of bedrock above grade.

The contractor was paid an additional \$28,000 to cover loss of time and the additional wear and tear to which his equipment had been exposed while working in the bedrock area.

122. *Continuing federal assistance to intra-provincial ferry services.* In our 1963 Report attention was drawn to the continuing federal subsidization of ferry landing facilities for provincial governments despite the general policy of the Department of Public Works and the Treasury Board over many years to regard such facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned.

The cases described at that time dealt with major wharf improvements in the lower St. Lawrence area, namely at Les Eboulements for the ferry service to Iles aux Coudres and the construction of terminal facilities at Matane for the ferry service to Godbout. In the latter case the Treasury Board withheld its approval of the contract because it was felt exception should not be made to the general policy regarding facilities for intra-provincial ferry operations. Eventually, however, "since some commitment had been given to the private interests, on which basis they undertook substantial commitments related to the acquisition of a vessel and the construction of the Godbout terminal", the Board reluctantly approved proceeding with the Matane project which was completed at a cost of \$172,000.

Construction of the Matane terminal and dredging at Godbout were undertaken at that time on the understanding that the ferry operator would construct the Godbout terminal and acquire and operate the ferry without further federal assistance. Notwithstanding this, Executive authority was granted in August 1963 for entry into a three-year subsidy agreement.

In 1963 the Department of Public Works was requested by the private owners to purchase the Godbout terminal on the grounds that the facilities at both ends of other ferry services in the lower St. Lawrence River area had been provided at federal expense. Specific provision was made for the purchase in Vote 30 of the Department's 1964-65 Main Estimates and the purchase was approved by the Treasury Board in July 1964 at a cost of \$268,000.

This acquisition has now brought to six the number of locations where the federal Government has provided terminals at both ends of cross-river ferry services in the lower St. Lawrence River. The total expenditure over the years for these terminals, which in some cases form part of shipping wharves, had exceeded \$7 million at March 31, 1965.

123. *Contribution due for ice control structure, Montreal.* Ice jams have always been a serious problem in the St. Lawrence River between Lake St. Peter and the Montreal harbour. It was foreseen that creation of the site for Expo '67 in this area would intensify this problem. Since icebreaking capacity sufficient to guarantee an open river throughout the winter could not be assured, an interdepartmental committee decided in 1963 that an additional safeguard should be provided in the form of an ice control structure to provide protection to the Exhibition site and to assist in controlling the ice conditions in the area. It was announced early in 1964 that the estimated cost of the structure would be \$12.5 million. It is now expected to cost approximately \$15.5 million.

Following a meeting held with the City of Montreal in July 1963, a document was signed by the three federal Ministers concerned and the Mayor of Montreal, which among other things recorded the City's agreement to make a contribution of \$2.5 million toward the cost of the project.

It was May 1964 before legal officers of the Department of Public Works and the City of Montreal met to work out the details of an agreement to provide for this contribution by the City. The departmental legal officers, however, expressed doubts as to the legal capacity of the City to enter into the project without provincial legislation. As a consequence it was not until June 1965 that an opinion was obtained to the effect that the City would be so empowered, subject to the passing of an enabling by-law by the City Council.

The agreement has not yet been signed. Meanwhile, construction has proceeded and the project is due for completion by July 1966. Federal government progress payments to the contractors and engineers up to March 31, 1965 totalled \$5,983,000 and have been advanced without any contribution so far by the City of Montreal under its 1963 undertaking.

The Department advised us in November 1965 that the resolution of the problem is imminent.

124. *Funds not accounted for by former officers.* It will be noted from paragraph 2 of this Report that section 70(1)(e) of the Financial Administration Act requires the Auditor General to call the attention of the House to every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.



Details of all losses incurred by reason of defalcations or other fraudulent acts or omissions of a public officer are listed annually in a statement of losses in the Public Accounts prepared pursuant to section 98 of the Financial Administration Act. The Audit Office checks this statement of losses to ensure that all losses observed during the year are included therein and has followed the practice of calling the attention of the House only to individual deficiencies or losses when the circumstances appear to warrant this.

The statement of losses in the Public Accounts for 1963-64 listed two losses, totalling \$912 and \$470 respectively, resulting from "misapplications of, or omission to account properly for, public funds". These losses were established by the Royal Canadian Mounted Police as having been caused by the failure of two of its officers to properly account for public moneys in their charge.

In December 1964 the two officers responsible for these deficiencies were compulsorily retired on pension "to promote efficiency", the pension in one case being reduced, under a provision of the Royal Canadian Mounted Police Pension Continuation Act, to relate to the period of satisfactory service prior to the time of misconduct.

In January 1965 the R.C.M.P. sought to collect the amounts of the two losses by deduction from the pensions of the officers involved pursuant to section 95(1) of the Financial Administration Act which reads as follows:

Where, in the opinion of the Minister of Justice, any person is indebted to Her Majesty in right of Canada in any specific sum of money, the Treasury Board may authorize the Minister of Finance to retain by way of deduction or set-off the amount of any such indebtedness out of any sum of money that may be due or payable by Her Majesty in right of Canada to such person.

In accordance with this provision, the Department of Justice was asked to consider a reference to the Treasury Board in order that the losses might be discharged in the manner sought by the Force. After the Department had examined the material assembled by the Force in the course of its investigation, they advised that the material did not establish that the two former officers "are indebted to Her Majesty in right of Canada within the meaning of section 95(1) of the Financial Administration Act and that, in any event, there is no specific sum within the meaning of that section".

As a consequence of this decision, no recovery of the losses will be made from the officers' pensions.

125. *Excess cost of Seaway property.* In 1955 the Department of Transport expropriated 52 acres of land in the Township of Cornwall, Ontario, for the purpose of a future all-Canadian seaway. One of the properties had frontage on the Cornwall Canal and the former owner of the property had a licence from the Department to use canal lands to unload and store coal. During negotiations to effect settlement for the property the former owner demanded either special compensation for the benefit he enjoyed from the use of canal lands or a 20-year lease without cancellation clause. Consequently, the Department decided that the property would be acquired only when it was actually needed for canal purposes and it abandoned the expropriation in 1956.

Although the property was then surrounded by Crown-owned lands and it was evident that it would have to be re-expropriated and compensation paid to the owner for improvements and loss of business, the owner proceeded to construct a 96,000-barrel fuel oil storage tank in 1956 and, without obtaining an easement, installed an oil pipeline across the Crown-owned canal lands to a dock on the canal. For several years afterwards the owner tried to sell the property to the Department of Transport and later to The St. Lawrence Seaway Authority. In 1961 the owner submitted an application for a lease in which an offer was made to sell the property to the Authority for \$280,000 and to lease it back from the Authority at an annual rental of \$16,000 for a period of fifteen years, subject to cancellation at the option of either party on six months notice. The property was then purchased on this basis with the approval of the Governor in Council on April 30, 1964 for \$282,000, including \$132,000 for the oil storage tank. Indications are that the anticipated rental income over fifteen years was a consideration in the decision to purchase the property at the price offered. On May 1st the vendor signed a lease for a parcel of this land and another company in which the former owner had an interest signed a lease for a second parcel containing the storage tank, together with a right-of-way for a pipeline extending across the first parcel. On May 5th, or four days later, the former owner gave six months notice of cancellation of the lease on the first parcel.

As a result, the Authority will not receive approximately \$90,000 rental income which it had expected to receive under the lease on the first parcel. Furthermore, it has paid \$132,000 for an oil storage tank which was not in existence at the time of the original expropriation.

126. *Deficits on inspection services.* The Standards Branch of the Department of Trade and Commerce is responsible for the administration of the Gas Inspection Act, R.S., c. 129, the Electricity Inspection Act, R.S., c. 94, and the Weights and Measures Act, R.S., c. 292. These statutes regulate the sale and use of measuring devices required for the distribution of gas and electricity and for general weight, volume and length determination. The inspection in each service is two-fold: first, approval of meters and devices before sale and installation, and second, in-use inspection.

Our examination of the Branch records included an appraisal of the internal controls and procedures in revenue collection as well as a comprehensive analysis of revenues in relation to costs incurred. In our opinion the revenue earned from inspections is subject to adequate continuous internal check and accountability but there is an increasing disparity between the revenues and costs incurred.

The Gas Inspection Act and the Electricity Inspection Act provide that:

such fees shall be regulated so that they will, as nearly as may be, meet the cost of carrying this Act into effect.

The Department interprets costs to include only direct costs of salaries and expenses of district offices. This excludes the share of the cost of the laboratory, which is involved in type approval of meters and other related inspection work, the expenses of Branch administration and the cost of services provided by other departments.

By comparing only direct costs with revenue, the service gave an appearance of being self-sustaining up to and including 1957-58. Since that time, direct costs have exceeded revenues by a low of \$47,000 in 1958-59 to a high of \$218,000 in 1964-65. Indirect costs were estimated to be \$475,000 in 1964-65 so there was a deficit of approximately \$700,000 in the year.

Fees for testing gas and electrical devices remain basically the same as in 1911. As new devices are introduced the new fees assessable are added to the rate schedule, the last such addition being for new electric power meters introduced in 1951. Consideration should be given to a re-assessment of the rate structure in order that the costs of providing this service may be recovered as required by the relevant Acts.

The Weights and Measures Act provides that:

The Governor in Council . . . may make regulations respecting the fees to be paid to inspectors for inspecting and verifying weights, measures, weighing machines and measuring machines or for weighing or measuring goods under this Act . . .

While the Act does not explicitly require revenue from fees to match the cost of the inspection services, it is our view that it should do so.

Each year from 1942-43 to 1964-65, direct costs have exceeded revenues from a low of \$4,000 in 1946-47 to a high of \$413,000 in 1964-65 despite the fact that fees were increased 25% on January 1, 1959. Indirect costs were estimated to be \$578,000 for 1964-65 so that the actual deficit for the year was approximately \$1 million.

Section 30 of the Act further provides:

. . . all weights, measures, weighing machines and measuring machines authorized by or under this Act for use in trade shall be inspected, verified and stamped at least once every year.

However, only 82% of the devices covered by the Act were tested during the year ended March 31, 1964 because of insufficient staff and widely scattered locations.

Consideration should be given to a complete re-assessment of the rate structure of the weights and measures inspection service in order to recover, to the extent practicable, the total costs of the service.

127. *Claims resulting from completion of air terminal building ahead of schedule.* Unusual circumstances were associated with a negotiated settlement for damages claimed against the Department of Transport during the year under review.

Prior to 1960 it became apparent to the Department that the new airport facilities at Edmonton would be completed several years in advance of the availability of a new permanent air terminal building. The erection of a temporary structure for the purpose was not proceeded with when it became known that a company which was planning to construct a major hangar at the new airport would make interior alterations which would enable the building to be used as a temporary terminal. In 1960 the Department entered into a lease for space in the hangar and in so doing became obligated "to use and in fact to occupy the demised premises and maintain the same as the administrative centre and terminal for the said airport for the duration of the term hereby created", which was for the period November 14, 1960 to September 30, 1964.



A number of airlines, caterers, taxi companies, etc., which in other circumstances would have rented space in a Crown-owned terminal building, also entered into lease agreements which they made directly with the owner of the hangar. In each case these individual lease agreements provided that the term would not extend beyond the date on which a permanent terminal building was occupied by the Department of Transport.

The new terminal was unexpectedly completed and ready for occupancy by December 1963. The Department of Transport and all of the other tenants terminated their leases and moved to the new premises with the result that the owner of the hangar lodged the following claims against the Department:

1. Claim for rental due by the Department for the period December 1, 1963 to September 30, 1964. This amounted to \$60,000. The claim was not disputed by the Department which had not foreseen the possibility that the new terminal would be ready prior to September 30, 1964. As it had obligated itself in the lease to pay rental until that date, the claim was paid in full.
2. Claim for damages resulting from loss of revenue due to the terminated leases of the airlines, caterers, taxi companies, etc., who also moved to the new terminal when it was ready for occupancy. The net amount of this claim, based on the total rentals of these tenants for the period December 3, 1963 to September 30, 1964, totalled \$80,000. Negotiations with the owner of the hangar by the Department of Justice resulted in a settlement of \$62,000 which was paid by the Department during the year.

128. *Cost of re-roofing air terminal building, Gander, Nfld.* The roof of the new air terminal building under construction at Gander for the Department of Transport was completed in 1957. The company which supplied the roofing material provided a bond under which it guaranteed to maintain the roofing membrane over the insulation for a period of twenty years at its own expense, excepting repairs required for any cause other than ordinary wear and tear by the elements.

In 1962 it became apparent that the roof was leaking and the company was requested to make repairs in accordance with the terms of the bond. It successfully disclaimed responsibility because the damage had resulted from the use of the roof as a storage area and a right of way by personnel of both the Department and the building contractor and could not be attributed to ordinary wear and tear by the elements. In 1963 conditions were such that it was necessary to enter into a contract for the re-roofing of the building at a price of \$77,000, none of which can be recovered.

129. *Cost of salvaging sunken vessel.* On March 5, 1964 a barge in tow with a cargo of oil sank in over 200 feet of water off Pasley Island in Howe Sound, B.C. Leaking oil fouled the beaches in the area. After the charterer had endeavoured to contain the pollution and clear the surface of the sea, he notified the Department of Transport that he was abandoning the vessel because the risk of rupturing the hull during any attempt at salvage and the cost of salvage were too great to contemplate.

The oil-laden barge remained a serious threat to water-fowl, marine life and coastal property and its removal was regarded as essential by the Department. As the wreck was not a menace to navigation, there was no legislation under which the private interests

involved could be held responsible for its removal or for costs if removal were undertaken by the Crown. Accordingly, the Department engaged salvage experts to investigate and report on the best means of dealing with the sunken barge.

Salvage operations commenced in June 1964 under a "no cure, no pay" contract. After the contractor's costs had exceeded the contract price, with little progress having been made, he indicated that he wished to withdraw from the undertaking and minimize his losses. This led to Treasury Board authority to negotiate with the same contractor to proceed on an incurred cost basis.

In October 1964 the barge was finally raised and removed to Vancouver, where it was sold for \$12,752 by Crown Assets Disposal Corporation. The remaining oil was found to have been so badly contaminated by sea water that it was valueless. Salvage costs paid to the end of the year amounted to \$265,000. The total expense of the operation is expected to be at least \$430,000.

We understand that consideration is being given to recommending legislation to place financial responsibility on the owners for the removal of a wreck or its cargo, in circumstances such as the above.

130. *Cost of abandoned design plans for ferry vessel.* In February 1964 the Department of Transport retained a firm of naval architects to prepare plans and specifications for an ice-strengthened railway car ferry to operate between North Sydney, N.S., and Port aux Basques, Nfld. A fixed fee of \$110,000 was agreed upon and the architects submitted a preliminary general arrangement plan and preliminary stability particulars.

Shortly after this date the Department informed the architects that the Canadian National Railways, which would be operating the vessel and had been consulted before the decision for an ice-strengthened ferry rather than one with full ice-breaking capacity had been made, were "quite emphatic that the vessel be designed for ice-breaking service and consequently the power will have to be revised to give an 18-knot service speed with diesel electric propulsion and ice-breaking qualities and scantlings".

After the architects had notified the Department that they were making revisions to meet the Railways' requirements, they were directed to suspend work while the issues involved were reconsidered. In April 1964 the Department decided that as the difference in the cost of building a full icebreaker as distinct from an ice-strengthened vessel would be very great, its original decision should be confirmed. The architects were then instructed to proceed with the original proposal.

The architects requested a revision of the fee that had been agreed upon in February 1964 which was then re-set and agreed to at \$130,000, or \$20,000 more than the original fee.

131. *Purchase and conversion of ferry vessel.* On May 19, 1964 the Department of Transport recommended to the Treasury Board that approval be given for the immediate purchase of a ferry for the carriage of freight between North Sydney, N.S., and Port aux Basques, Nfld. The Department stated that, if an offer to purchase were made before May 25th, the vessel could be acquired at a very reasonable cost.



The vessel, a 432-foot railroad car ferry, built in 1951 by a Canadian shipyard for the Miami-Havana service, had been on the market for some time and, since 1961, a firm of ship brokers in New York had made four separate attempts to interest the Department of Transport in acquiring the vessel. No action was taken, however, because prior to 1964 departmental policy had been to acquire ships only by construction within Canada. In 1964 the Department decided that an urgent situation which had developed with regard to the movement of freight between North Sydney and Port aux Basques warranted a change of policy which would recognize that emergency circumstances might justify the acquisition of a vessel outside of Canada.

The purchase price was \$1,513,000 "free alongside" the port of Sorel and the Department advised the Treasury Board that it estimated that repairs and conversion would cost \$750,000, making a total outlay of \$2,263,000 to place the vessel in service. The Treasury Board approved the purchase on this basis on May 21, 1964.

Departmental records indicate that a Sorel shipyard had obtained an option on May 8, 1964 to purchase this vessel at Jacksonville, Florida, from its United States owners for a price of U.S. \$1,200,000. The option, good until May 25th, was duly exercised and the vessel was then sold to the Department of Transport on May 26, 1964 for \$1,513,000, pursuant to the authority given by the Treasury Board.

On July 6, 1964 the Department requested authority to enter into a further contract with the Sorel shipyard for conversion and refit of the vessel. It was estimated that this work would exceed the \$750,000 figure given to the Treasury Board on May 19th, the submission stating that the costs would total \$755,000, plus \$481,000 as a contingency to cover extra work arising from the opening up and modifications called for by the Canadian National Railways, the intended operators of the vessel. It was not proposed to invite competitive tenders because of the time factor which necessitated placing the vessel into service as quickly as possible. The Treasury Board replied on July 29th that it would be prepared to authorize entry into a contract on a price to be negotiated basis on the understanding that a realistic target incentive contract would be submitted to the Board for approval after the vessel was opened up and specifications had been prepared.

It then developed that the work required exceeded all previous estimates and it was October 1964 before the Department negotiated a contract with the shipyard on the basis contemplated by the Treasury Board, setting the estimated conversion cost at \$1,844,000 with an incentive clause covering the division of savings on the target price.

Costs incurred under this contract for the conversion and refit of the vessel, which was accepted by the Department on May 1, 1965, amounted to \$2,447,000.

132. *Cost of faulty planning in ferry design.* In September 1963 the Department of Transport entered into a contract with a firm of naval architects for the preparation of plans and specifications for an ice-breaking railway and automobile ferry for operation in the Northumberland Strait and Newfoundland service at a fixed fee of \$156,000.

Six months later it became evident that allowance would have to be made for rail car weights considerably in excess of those contemplated in the original planning if the vessel was to be properly stabilized. When this decision was communicated to them, the



architects placed a value of \$102,000 on the work they had already done. They estimated that they would be able to use work to the value of \$47,000 in the revised planning and that the balance of \$55,000 represented the cost of the planning work to be abandoned. They were reimbursed in full by the Department.

In considering the Department's report on the circumstances of this case, the Treasury Board pointed out that the need for the design changes might have been avoided had departmental engineers taken the precaution to verify their information regarding freight car weights with the Canadian National Railways before commencing the basic design. The Board pointed out that it would seem improbable that the planning and implementation of modifications to the design and construction of the freight cars took place entirely between August 1963, when the basic plans for the new ferry were developed for the Department, and February 1964 when the new weight data was provided to the Department by the C.N.R.

The Treasury Board directed that procedures be developed for the verification of basic data to avoid similar situations in future.

133. *Cost of changing vessel design.* In May 1963 the Department of Transport entered into a contract at a fixed fee of \$86,000 with a firm of naval architects for the preparation and supply of plans and specifications for the construction of an icebreaker supply and buoy vessel, estimated to cost \$8,800,000, for operation in the Gulf of St. Lawrence.

Following submission of preliminary drawings by the architects, the Department requested that the accommodation requirements be increased from 71 to 91 as the result of the development of a new rating structure for vessels, leading to a revised crew complement. An additional factor was that experience in the north, where it was decided that this ship would have to be used during the summer, was increasingly pointing to the need for extra berth capacity in connection with the type of work involved in northern operations.

In September 1963 the architects advised that the vessel would have to be increased in length to provide for these and other lesser changes and that "all the work we have executed since February becomes null and void and we request your concurrence that a fresh start of the design is warranted".

This concurrence was given in July 1964 and an additional payment of \$20,000 was made to the architects.

Entry into a contract for the building of the ship was approved by the Treasury Board in September 1965.

134. *Cost of altering vessel design plans.* In May 1963 a firm of naval architects was retained by the Department of Transport at a fixed fee of \$42,000 to prepare plans and specifications for the construction of an icebreaker supply and buoy vessel for service on the Great Lakes.

In September the architects delivered their preliminary plans and specifications prepared in accordance with departmental requirements and guidance plans supplied. In November the Department advised the architects that the design was to be modified for service in the St. Lawrence River and the Gulf of St. Lawrence and also to provide Arctic supply capabilities.

In August 1964, after the architects had completed their engagement, they were paid \$15,000, additional to the fixed fee of \$42,000, for the extra work in preparing the new design.

The award of a contract for construction of the vessel at a price of \$5,267,000 was announced in April 1965.

135. *Cost of "dead-freight"*. The Department of Transport conducts an annual Arctic re-supply operation which includes the making of arrangements for transportation, stevedoring and other shipping services for other government departments and agencies on a recoverable basis. In April 1964 the Department called for tenders for the carriage of specified tonnages of cargo from Montreal to northern ports with the proposed loading dates scheduled for July 1964. The offer that was accepted quoted rates based upon "the minimum figures as shown in the request for tenders".

When the goods were loaded at the scheduled sailing time in Montreal, it was apparent that the total cargo was about 1,115 tons, or 21.5% less than what had been originally contemplated, of which 990 tons represented a short-shipment by the Department of Northern Affairs and National Resources. The total shortage represented a "dead-freight" charge of \$67,000, a figure which was ultimately reduced to \$44,000 through concessions made by the shipping company. Of this latter amount, \$33,000 was charged to a Department of Transport appropriation in the current year and the balance to the following year.

136. *Subsidizing of intra-provincial ferry service*. Since 1906 the operation of a ferry service between Pelee Island and Ontario mainland ports has been subsidized solely by the federal Government. The present vessel, specifically designed for this service, was built by the Department of Transport at a cost of \$567,000 and delivered in 1960 to the operating company under a charter hire agreement.

On a number of occasions in recent years the Treasury Board has expressed approval of a policy of regarding subsidy assistance to ferry vessels, which are essentially links in provincial highway systems, as primarily a provincial responsibility. In accordance with this policy, the Government of Ontario was approached early in 1964 to ascertain the amount of assistance that it would be prepared to provide in sharing the amount of subsidy required to maintain the Pelee Island service. The Province declined to contribute on the grounds that its Highway Improvement Act only permits payment of a subsidy to a municipality which in turn is paying for a portion of the cost of operating a ferry service, and in this instance no municipality was involved. The attitude of the federal Government is that if the provincial Government is not prepared to seek some measure of municipal responsibility there would seem to be no valid reason why the Province should not enact legislation to directly assist the service if it feels that it is important to the economy of the area it serves.

In approving a subsidy of \$79,000 for the year 1964-65 (from which was recovered the charter hire fee of \$51,000 for the year) the Treasury Board advised the Canadian Maritime Commission in November 1964 "that a significant provincial contribution must be obtained next year as continuation of federal subsidization at the present level will

definitely not be approved under any circumstances". Although the Commission again approached the provincial Government in January 1965, informing it of the stand taken by the Treasury Board, the Province again declined to contribute to the subsidy.

In the circumstances the Treasury Board reversed its earlier stand and authorized the inclusion of a subsidy provision of the same amount in the Estimates for 1965-66. Interim supply has permitted the payment of \$39,000, representing one-half of the subsidy.

137. *Subsidy for the construction of a floating fish processing plant, Liverpool, N.S.* In May 1961 when the Minister of Transport made a statement of government policy with respect to ship operating and shipbuilding, the House of Commons was informed that a basic intent of the new policy was to make it possible for Canadian ship operators to obtain new vessels from Canadian shipyards at reasonable and competitive prices instead of being forced to have them built abroad because of lower construction costs that prevail in other countries. The intention was also to make it possible for the Canadian fishing industry to obtain the necessary degree of assistance to encourage it to modernize its fleet by the construction of new vessels in Canadian shipyards.

A step in implementing the policy was the establishment of the Ship Construction Assistance Regulations to be administered by the Canadian Maritime Commission. Each application for assistance requires the approval of an interdepartmental committee established under the Regulations, the Minister of Transport and the Treasury Board. The Regulations make provision for the payment of a subsidy of 35% of the approved cost of a vessel of 200 tons gross tonnage or over that is not self-propelled and is intended for use in commercial enterprise. In April 1964 a Liverpool company, formed to engage in fishing and fish processing, and a shipbuilder made joint application for a subsidy in respect of what was described as a "steel barge (floating fish processing plant)". The contract price of \$545,000 was later accepted as the approved cost for subsidy purposes. This cost included fish processing equipment to be affixed or built into the structure, the cost of non-Canadian materials and equipment being \$127,000. On this basis the subsidy, when paid after acceptance of the barge from its builder and registration under the Canada Shipping Act, will amount to \$191,000 of which a substantial portion will relate to the fish processing equipment including an amount of \$45,000 in respect of materials and equipment of non-Canadian content. Our information indicates that the barge, while capable of mobility to a limited degree, is to be moored more or less permanently at Liverpool, N.S. to serve as a factory.

Although the application for subsidy fell within the Ship Construction Assistance Regulations and was approved by the several responsible authorities, it seems questionable whether the subsidy program was ever intended to reduce the costs involved in the development of a site for, and the fitting out of, a fish processing plant.

138. *Awards under the Pension Act.* Reference has been made in prior Reports to inconsistencies and ambiguities in the Pension Act, R.S., c. 207, that have made it difficult to determine whether awards under the Act, particularly those granted on a discretionary and compassionate basis and to persons in a dependent condition, were in conformity with



the provisions of the Act. The Public Accounts Committee in its Eighth Report 1964 made certain recommendations designed to overcome these shortcomings (see Appendix 1, item 35):

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40(2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38) be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award; and
- (e) that, having regard for section 40(1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45(2) of the Act.

The Minister of Veterans Affairs pointed out in a letter to the Chairman of the Public Accounts Committee, dated March 3, 1965, that definition of the term "specially meritorious" would limit the discretionary authority of the Commission; that the ambiguity in the Act with respect to concurrent payments to or on behalf of children, dependent parents and brothers and sisters could be eliminated only by withdrawal of their pension entitlement; that the Act was designed to encourage a widowed mother to seek employment; that the Commission had no authority to reject a claim for pension so long as the applicant is in a dependent position even though the parent turned property over to a son or daughter for the sole purpose of qualifying for a pension; and that the parent should, in the event that she falls into a dependent condition, be equally entitled on account of each son.

The Public Accounts Committee has not found it possible to consider the comments received concerning its previous recommendations and observations. When the Committee resumes its meetings, our follow-up report on these recommendations and observations as detailed in Appendix 1 will include reference to the Minister of Veterans Affairs' letter referred to above.

In September 1965 the Treasury Board approved the appointment of a committee of three persons not connected with the Department of Veterans Affairs or the Canadian Pension Commission for a survey of the organization and work of the Canadian Pension

Commission and for preparation of a report and recommendations thereon to the Minister of Veterans Affairs. Included in the field to be studied is the interpretation of such sections of the Pension Act which, in the judgment of this committee, should be considered.

139. *War veterans allowances.* In prior years' Reports comment has been made on various aspects of awards under the War Veterans Allowance Act, R.S., c. 340. The 1962 Report referred to the fact that the provisions of the Act and its Regulations relating to financial penalties or imprisonment, or both, for making false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of the award, were seldom invoked by the War Veterans Allowance Board. Attention was also drawn to an anomaly whereby, although the awards are based ostensibly on need, the recipients' equities in mortgages and agreements for sale were not taken into account as personal property in the determination of entitlement under the Act.

The 1963 Report repeated these comments and also drew attention to the fact that income of children involved in the award is treated as exempt income in the calculation of the allowance even though the recipient may qualify for increased allowance by considering such children as dependents.

The Public Accounts Committee after reviewing these comments made the following recommendations in its Eighth Report 1964 (see Appendix 1, item 36):

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate; and
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

The Minister of Veterans Affairs in a letter to the Chairman of the Public Accounts Committee dated March 3, 1965, indicated that full consideration would be given to the comments of the Committee with respect to a stiffer line on wrongdoers but that it had been the Department's experience that the Courts had invariably dealt leniently with veterans. The Minister considered that the policy with respect to mortgages receivable and agreements for sale should not be changed as it had proved eminently satisfactory over the years. Neither did he feel that any change should be made with respect to income of dependent children, noting that the cases where a dependent child is in receipt of assessable income are rare. The Minister pointed out that in considering the three recommendations of the Public Accounts Committee he was mindful of the fact that the War Veterans Allowance Act is welfare legislation and, therefore, should be administered with a broad and liberal interpretation.

The Public Accounts Committee has not found it possible to consider the comments received concerning its previous recommendations and observations. When the Committee resumes its meetings, our follow-up report on these recommendations and observations as detailed in Appendix 1 will include reference to the Minister of Veterans Affairs' letter referred to above.

Another problem associated with the administration of the War Veterans Allowance Act stems from the necessity of determining the value of property used by an applicant as a residence. Regulations provide that 5% of the amount by which the fair and reasonable value of the property exceeds \$9,000 (the exemption provided in the Act which has been increased to \$10,000, effective June 30, 1965) shall be considered as income. The War Veterans Allowance Board uses the amount that the veteran invested in the residence as the fair and reasonable value in calculating the allowance to be paid to an applicant. As the acquisition of the property may have taken place many years before the determination of the entitlement, and in the interval property values may have greatly increased, the practice followed by the Board leads to some unusual results, of which the following is an example. The widow of a veteran was granted an allowance of \$143 per month with effect from March 6, 1965. In the calculation of her entitlement, the property on which she resides was valued at \$9,300, the purchase price in 1946. The property has been for sale at \$89,000 for the past five years, although the realtor with whom the property is listed believes that \$60,000 would be more realistic.

140. *Unpaid accounts carried forward to new fiscal year.* Appropriations for the Department of National Defence for 1964-65 were insufficient to provide for all accounts coming due for payment in the course of the year, and accounts totalling \$7,308,000 were held over to be paid out of 1965-66 funds, as follows:

Vote 15	Royal Canadian Navy.....	\$ 1,932,000
Vote 20	Canadian Army.....	493,000
Vote 25	Royal Canadian Air Force.....	4,694,000
Vote 35	Defence Research and Development.....	189,000
		<hr/>
		\$ 7,308,000
		<hr/>

Supplementary Estimates (D)—the final supplementary estimates of the year—included an amount of \$7 million for the Canadian Army which was not quite sufficient to cover all outstanding accounts. No final supplementary estimates were requested for the other Services.

Funds provided by Vote 15 of the Department of Citizenship and Immigration for administration and operation of the Indian Affairs Branch were insufficient for payment of all accounts of the year, and accounts totalling \$1,080,000 were held over for payment in 1965-66. No supplementary estimate was requested.

Another charge applicable to the year but which has been carried forward as part of the current assets item "Departmental working capital advances and revolving funds" is an amount of \$1,318,000, included in the balance of \$23,152,000 in the "Agricultural Commodities Stabilization Account" (see paragraph 171). This is the amount by which



the \$57,118,000 provided by Appropriation Act No. 2, 1965, Department of Agriculture Vote 80d, the final Supplementary Estimates of the year, fell short of meeting the balance of the loss of \$2,555,000 brought forward from the previous year and the loss of \$55,881,000 (exclusive of the estimated cost of major services provided without charge by government departments) experienced by the Agricultural Stabilization Board during the year (see also paragraph 213).

141. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1964-65 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the Post Office numbered 7 and amounted to \$7,270. Of these, 3 involving \$693 were recovered in full and there was a partial recovery of \$2,133 in one other case.

Reference was made in last year's Report (paragraph 93) to losses totalling \$168,263 which had been shown as outstanding at March 31, 1963. Some of these amounts dated back to 1952-53 and no final action by way of adjustment, recovery or charge to the Public Officers Guarantee Account had been reported. Although the attention of the Treasury Board had been directed to these long-outstanding amounts in October 1963 and again in February 1965, there remained 16 balances totalling \$126,983 still to be cleared at March 31, 1965. Additional balances totalling \$65,928 were outstanding at March 31, 1965 in respect of 9 losses which had been reported in 1963-64.

Losses suffered by the Post Office Department in 1964-65 numbered 97 and amounted to \$67,969. Of these, 62 totalling \$27,276 were recovered in full, while partial recoveries amounted to \$8,467.

142. *Non-productive payments.* Since 1961 there has been included in the Auditor General's annual Report to Parliament at the request of the Public Accounts Committee a listing of the non-productive payments which came to our notice in the course of our audit.

After considering the listings of the non-productive payments that were included in the 1962 and 1963 Reports, the Committee in its Sixth Report 1964, tabled in the House on October 20, 1964, expressed concern at the increasing number which were being noted and went on to state:

Since the majority of these cases involved expenditure by three departments, namely Public Works, National Defence and Transport, members of the Committee questioned the deputy ministers of these three departments closely as to the causes and reasons of many of the larger losses. A number of these losses arose from circumstances beyond the control of the department named, for example Public Works in its role as a service department.

The Committee is of the opinion that the majority of these losses must be attributed either to failure to exercise normal commercial prudence in entering into contractual obligations or to lack of effective departmental specifications, organization or co-ordination. It also believes that failure by departments to pinpoint blame for many such losses and to take corrective action accordingly is a contributing factor.

The Committee reiterates the request it made to the Auditor General in 1961 concerning this type of loss, namely that in his future annual reports to the House of Commons the Auditor General continue to include listings of all non-productive payments coming to his notice in the course of his audit.

In our 1964 Report which, as stated in paragraph 4 of this Report, has not yet been referred to the Public Accounts Committee, 35 cases of non-productive expenditures were listed in Appendix 2. These, together with 2 other examples of non-productive expenditures noted and commented upon under Comments on Expenditure and Revenue Transactions, involved an estimated \$2,089,000.

In view of the comments of the Public Accounts Committee quoted above, the Audit Office has endeavoured this year to pinpoint more closely the underlying reasons for this type of cost, particularly where the circumstances of the non-productive payment appeared to have been beyond the control of the department or agency against whose appropriation it was charged. We believe this should enable closer study to be given to the individual cases both by those responsible and by the members of the House and the Public Accounts Committee.

The non-productive payments listed by the Audit Office each year are those payments coming to the notice of the Auditor General in the course of his audit. It is important to understand that many of them have their origin in transactions commenced in prior years and that they come to notice only when final settlement is made during the year under audit.

In this Report we have dealt with 37 cases of non-productive payments estimated at \$22,737,000. Of these, 21 are included in the foregoing paragraphs while the remaining 16 cases are as follows:

1. PAYMENT OF SALARY TO A JUDGE DURING A PERIOD OF LEAVE OF ABSENCE.—Pending the disposal of criminal charges that had been laid against him, a judge of the Superior Court of Quebec was granted leave of absence from May 1, 1964 under the authority of the Governor in Council. The covering Order in Council did not stipulate whether leave would be with or without pay. On October 23, 1964 the judge was convicted on one count of perjury and sentenced to imprisonment for two years. He appealed the conviction and in October 1965 the Quebec Court of Appeal granted him a new trial. To March 31, 1965 the judge had been paid \$19,250 in salary while on leave.
2. CONSTRUCTION OF FUEL STORAGE FACILITIES, SHELBURNE NAVAL BASE, N.S.—In May 1963 a contract was entered into for the construction of fuel storage facilities at the Royal Canadian Navy base at Shelburne in the amount of \$724,800, of which \$586,800 was firm, the remainder being based on estimated quantities at firm unit prices. Engineering and design changes increased the contract price by \$65,300. In addition, the contractor claimed \$185,900 for prolongation of the contract due to changes imposed by the Crown, and for extra dredging, rock excavation, steel piling, and the removal of and repairs to the pipe line made necessary by unforeseen conditions encountered on the marine floor. This claim was settled for \$130,300.

Part of the aluminum pipe specified in the original design collapsed and when removed for repair it was also found to be severely corroded. Before submerging the repaired pipe the contractor expressed doubts about its suitability for underwater installation under the conditions encountered and gave notice that he would not be responsible for its performance. As there was also a risk of damage to the fishing industry if the pipes ruptured, it was decided to replace the aluminum with steel piping at a cost of \$118,600. This brought the final cost of the project to \$1,039,000.

3. ADDITIONAL COSTS FOR CONSTRUCTION OF A COMMUNICATIONS BUILDING AND SERVICES FOR THE CANADIAN ARMY, PENHOLD, ALBERTA.—In August 1961 a contract was entered into for the construction of a communications building and services at Penhold in the amount of \$2,150,000, of which \$2,129,000 was firm, the remainder being based on estimated quantities at firm unit prices. Design and engineering changes increased the cost by \$70,900 to \$2,220,900.

In December 1963 the contractor submitted a claim in the amount of \$228,300 for additional costs as a result of delays attributed to changes imposed by the Crown and in carrying out the work as directed by the Crown. The claim was settled for \$65,500, bringing the final cost of the project to \$2,286,400.

4. DAMAGE CLAIM RESULTING FROM EXPROPRIATION OF LAND, PENHOLD, ALBERTA.—In June 1963, five hundred and fourteen acres were expropriated to extend the runways of R.C.A.F. Station, Penhold for jet training. On September 19, 1963 the Treasury Board authorized an advance payment of \$100,000 for the property.

Prior to any payment being made, negotiations with the Department of Transport indicated that sufficient air space would not be available in this area to make jet training at Penhold feasible. Accordingly, the plan to expand the station was cancelled and in October 1963 the expropriation was abandoned and the land returned to the former owner.

After the abandonment the owner claimed reimbursement for all losses and damages resulting from the expropriation of the land and subsequent interference with his farm production, and in March 1965 he was paid \$15,000 in full settlement of his claim.

5. ADDITIONAL COSTS DUE TO FAULTY SPECIFICATIONS—R.C.A.F. STATION, SUMMERSIDE, P.E.I.—In June 1962 Defence Construction (1951) Limited entered into a contract, calling for completion by September 14, 1962, for the re-roofing of hangars at the R.C.A.F. Station, Summerside, at a firm price of \$124,000. In the early stages of the contract it was found that an acceptable wrinkle-free roofing finish could not be obtained by using the specified cold process method for application of the roofing felt approved by the Department of National Defence. The work was suspended while various alternative methods of cold process applications were tested. With the onset of winter the job was closed down and all equipment and unused material were placed in storage pending resumption of work in the spring. In the meantime, it was established that the roofing felt could be successfully applied by using propane-heated rollers. In June 1963 work was recommenced using this process and was completed on September 26, 1963. The contractor submitted a claim of \$15,000 for additional costs arising from the prolongation of the contract and from closing down and reopening the job. The claim was settled for \$10,689 in June 1964.
6. ADDITIONAL COSTS FOR INSTALLATION OF ACTION SPEED TACTICAL TEACHER AT JOINT MARITIME WARFARE SCHOOL, HALIFAX, N.S.—A contract was entered into for the installation of an Action Speed Tactical Teacher at the Joint Maritime Warfare School at an estimated cost of \$74,000, the work to begin on September 1, 1959 and be completed by March 31, 1960.



The equipment was to be installed on a false wooden floor supplied by the Navy under separate contract. A delay occurred when the Naval Base Fire Chief prohibited the use of wood. He finally settled for a steel frame and plywood treated with fire-retarding paint. In December, after a delay of fourteen weeks, work on the floor had progressed sufficiently for the contractor to recommence installation activities. As a result of this delay, the contractor was paid \$4,000 for additional labour in connection with removing, storing and rehandling of cables and equipment, bringing the final cost of the contract to \$78,000.

7. **COST OF DELAY IN RETURNING RENTED IMPRINTERS.**—In 1963 the Department of Defence Production, on behalf of the Unemployment Insurance Commission, entered into a renewal contract for the rental of 2,500 aluminum plate imprinters for the period from July 1, 1963 to March 31, 1964 at a rate of \$1 per unit per month, payable in advance. When the imprinters were not returned by the expiry date of the contract the supplier claimed \$2,500 rental for the month of April 1964. Negotiations with the supplier led to his forgoing rentals on the 985 imprinters which had been received by him in the first seven days of April and the Commission paid rentals of \$1,515 on the remaining imprinters although none of them were used in the period.
8. **ADDITIONAL COST DUE TO DELAY IN AWARDING CONTRACT, BANFF-JASPER HIGHWAY.**—In 1961 the Department of Public Works obtained tenders for the construction of a bridge on the Banff-Jasper Highway for the Department of Northern Affairs and National Resources. Although the tenders were opened on September 19th there was a delay of two months before a contract was awarded to the lowest tenderer, whose bid of \$254,000 was \$30,000 less than that of the second low bidder. In addition to the delay caused by the normal procedure of checking the successful tenderer's design and communicating with him in that regard, there was a further delay while contracts generally were reviewed to see which ones could be deferred. Subsequently the contractor, who lost money on the project, presented a claim for extra expenses incurred because of the delay in the placing of the contract. His contention was that wet autumn weather, followed by an extremely cold period, had forced him to produce concrete aggregates from frozen material under much more costly conditions than would have been the case if the work had been performed in early autumn. During the year he was paid \$20,000 in partial compensation for additional costs which he attributed to the delay. In authorizing payment of this claim, the Treasury Board made an exception to its policy of not accepting claims based on the delay in the award of a contract.
9. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, POINTE-AU-PÈRE, QUE.**—In March 1964 the Department of Public Works awarded contracts for the improvement of facilities at Pointe-au-Père and Baie Comeau in connection with the operation of a ferry service between the two communities. Shortly afterwards the operators of the ferry expressed concern that both terminals were to be reconstructed during the season of heaviest traffic because this would interfere seriously with the maintenance of their schedule. The conclusion was reached that the only acceptable procedure that would ensure the continued operation of the ferry would be to delay the Pointe-au-Père project for approximately three months. The contractor agreed on condition that he be reimbursed for additional costs incurred as a result of the delay. During the year he was paid \$14,938 in settlement of his claim.
10. **ADDITIONAL COST DUE TO CONSTRUCTION DELAY, CLARENVILLE, Nfld.**—The Department of Public Works awarded a contract in 1963 for the construction of the main haulout section for a marine dry dock facility at Clarenville required by the Department of Transport. One phase of the contract involved the dredging of an area to accommodate

the underwater track, including the excavation of some bedrock. Borings had previously been taken at the site of the work but not at its outer end because a projection of the dip of the rock, as indicated by the borings in the inner area, showed the top surface of the rock passing below the maximum dredged depth required. As excavation proceeded, however, bedrock was encountered at the outer end which necessitated a change in the contractor's method of operation and delayed progress of the work. This resulted in a decision to close down the undertaking for the winter months of 1963-64 because of the effect of the delay on other phases. During the year the contractor was paid \$12,909 to compensate him for additional costs incurred due to the delay and the closing down and reopening of the work.

11. **COST OF REMEDIAL WORK DURING CONSTRUCTION PERIOD, OTTAWA.**—The contractor for the construction of the Trade and Commerce Building went into bankruptcy in 1957 and a contract for completion of the work was awarded to another company. Where possible, new agreements were negotiated with the sub-contractors of the bankrupt company. The original electrical sub-contractor undertook to proceed and the Department of Public Works agreed that if it was found necessary to replace or rehabilitate material or equipment "beyond that normally experienced on a project of this size and duration", such work would be carried out under the direction of the general contractor on a job work order basis. In 1958 the sub-contractor presented a claim for extra costs, including an amount for the rehabilitation of elements of his work after the post-bankruptcy shutdown. Until 1964 the Department resisted the claim, taking the view that the commitment with regard to rehabilitation costs was intended to apply only to a case where the sub-contractor had taken all reasonable precautions to protect his work and, despite this, corrective measures were required. In that year, however, the conclusion was reached that certain remedial costs stemming from condensation and other moisture conditions in the building during the shut-down period, at which stage it was not weatherproof, could be recognized and \$12,190 was paid to the sub-contractor.
12. **ADDITIONAL COST DUE TO CONSTRUCTION DELAY, CALGARY, ALTA.**—In 1958 the Department of Public Works awarded a contract for the construction of a postal terminal building at Calgary. During the year a settlement of \$8,150 was made with the contractor—in respect of a much larger claim—for reimbursement of additional costs resulting from a number of delays. The major part of the claim centered around the fact that the details of the mail handling equipment had not been finalized prior to the commencement of building construction. The late award of the separate equipment contract did not permit the building contractor to complete his work in certain areas as expeditiously as planned, with the result that site overhead costs were abnormal.
13. **COST RESULTING FROM DISCREPANCY IN SPECIFICATIONS, MATAPEDIA, QUE.**—In October 1963 a contract was awarded by the Department of Public Works for repairs to a bridge at Matapedia. Because of the age of the bridge special bearing pads were required to reduce the residual stresses on the bridge members. The Department's specifications for the work required that pads of a certain grade be used, but also required that the pads comply with the requirements for such pads appearing in a publication which contained standard specifications for highway bridges. As the departmental requirement was at variance with that contained in the publication, a situation developed which led to a delay of several weeks in the procurement of the proper pads. The delay forced a temporary shut-down of the work and extension into colder weather at extra cost to the contractor. In December 1964 he accepted a payment of \$7,622 in settlement of a larger claim for costs arising from the discrepancy in the specifications.



14. **ADDITIONAL COST DUE TO CONSTRUCTION DELAY, OTTAWA.**—During the construction of the foundation work for an administration building for the Department of Agriculture, difficulties were encountered in the initial pile driving operations. The investigation and redesign which were required resulted in a succession of notices of change to the contractor over a period of several weeks. His planned schedule was disrupted and delayed by this circumstance as well as by the testing of the piles previously driven. During the year he was allowed \$5,324 in recognition of the fact that his supervisory staff and key operating personnel had been unable to work at full capacity during the redesign period.
15. **COURT AWARD TO ARCHITECT IN RESPECT OF ABANDONED WORK, ST. JOHN'S, NFLD.**—In 1954 an architect was engaged by the Department of Public Works in connection with a proposed postal terminal building at St. John's. After he had submitted preliminary plans for approval and had proceeded with the preparation of working drawings, it was decided that he should work in association with another architect. Subsequently he presented a claim to the Department for work done to that point, stating that changes in requirements and ideas were so extensive that it had been necessary to abandon the early results of his undertaking. The Department resisted the claim but in 1964 he was awarded \$4,147, with costs, in the Exchequer Court of Canada in respect of the abandoned work.
16. **CANADIAN GOVERNMENT PARTICIPATION IN EXPO '67.**—In January 1964 a firm of architects was engaged by the Department of Trade and Commerce to design plans and to provide professional services for the erection of the Canadian Government Pavilion, comprising six structures and supporting facilities, at the Canadian Universal and International Exhibition, Montreal, 1967. Subsequently, the Treasury Board approved the award of a contract for construction of the Pavilion for \$6,138,000. The land on which the Pavilion is being constructed has been reclaimed by the City of Montreal at a cost of several million dollars and the site for one of the buildings, to include administrative offices, a theatre and an arts centre, is estimated to be worth in excess of \$400,000.

The initial concept envisaged a project of temporary buildings and structures to be dismantled at conclusion of the Exhibition. However, a Cabinet decision of July 1964 accepted the suggestion that the building to house the theatre be a permanent structure and become a gift to the National Theatre School of Canada, Montreal, provided the School negotiated possession of the land from the City. The architects were then informed and directed to proceed accordingly. In December 1964 the School had not yet acquired the land and, due to the limited time available for completion of the project, it was necessary to abandon the plans for a permanent building.

As a result the architects were paid \$28,000 for plans which could not be used.

### Summary of Assets and Liabilities

143. The Statement of Assets and Liabilities as at March 31, 1965, with comparative figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.



*Assets*

144. The following table lists the assets at March 31, 1965, by main headings in the Statement of Assets and Liabilities, in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1963	March 31, 1964	March 31, 1965
Current assets.....\$	820,271,000	\$ 1,286,794,000	\$ 1,070,688,000
Advances to the Exchange Fund Account.....	2,736,000,000	2,601,000,000	2,621,000,000
Investment in special United States of America securities—Columbia River Treaty.....	—	—	219,479,000
Sinking fund and other investments held for retirement of unmatured debt.....	22,312,000	—	5,441,000
Loans to and investments in Crown corporations.....	4,468,119,000	4,584,194,000	4,996,301,000
Loans to national governments....	1,210,777,000	1,195,685,000	1,206,577,000
Other loans and investments.....	1,110,655,000	1,197,816,000	1,139,382,000
Securities held in trust.....	26,016,000	38,882,000	53,060,000
Deferred charges.....	936,644,000	400,361,000	208,585,000
Suspense accounts.....	136,000	141,000	—
Inactive loans and investments....	94,824,000	94,824,000	94,824,000
Total recorded assets.....	11,425,754,000	11,399,697,000	11,615,337,000
Less—Reserve for losses on realization of assets.....	546,384,000	546,384,000	546,384,000
Net recorded assets.....\$	\$ 10,879,370,000	\$ 10,853,313,000	\$ 11,068,953,000

145. *Current assets.* The balances included under this heading at March 31, 1965, with the comparable balances at the close of the two previous years, were:

	March 31, 1963	March 31, 1964	March 31, 1965
Cash.....\$	511,347,000	\$ 984,643,000	\$ 850,282,000
Departmental working capital advances and revolving funds:			
Agricultural Commodities Stabilization Account.....	139,043,000	63,954,000	23,152,000
Defence Production Revolving Fund.	39,068,000	27,791,000	30,157,000
Bullion and coinage accounts.....	27,212,000	29,401,000	18,704,000
Stockpiling of uranium concentrates..	—	13,537,000	24,414,000
Other.....	37,944,000	34,123,000	37,724,000
	243,267,000	168,806,000	134,151,000
Securities held for the Securities Investment Account.....	33,480,000	99,860,000	57,120,000
Other current assets.....	32,177,000	33,485,000	29,135,000
	\$ 820,271,000	\$ 1,286,794,000	\$ 1,070,688,000

The \$23,152,000 balance of the Agricultural Commodities Stabilization Account at March 31, 1965 was \$40,802,000 less than the corresponding amount at the end of the preceding year. This was mainly due to the sale of residual stocks of butter accumulated from 1958 to 1962.

The amount of \$24,414,000 for stockpiling of uranium concentrates represents charges to Department of Trade and Commerce Vote L63c, 1963-64, and Vote L37a, 1964-65, for the acquisition of uranium concentrates by Eldorado Mining and Refining Limited on behalf of Her Majesty in right of Canada and for the cost of stockpiling the uranium concentrates so acquired.

The \$57,120,000 balance of the Securities Investment Account represents, at amortized cost, temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act.

146. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum (\$3,000,000,000 at March 31, 1965) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The advances to the Account at each year-end are included in the Statement of Assets and Liabilities at their total, less repayments, with a parenthetical note giving the market value of the investments from the advances. Thus at March 31, 1965 the amount shown for Advances to the Exchange Fund Account was \$2,621,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$2,653,407,000, indicating an unrecorded surplus of \$32,407,000. By comparison, at the close of the preceding year there was an unrecorded surplus of \$30,200,000.

A summary of the transactions in the Account for its financial year ended December 31, 1964 is included in paragraph 228 of this Report.

147. *Investment in special United States of America securities—Columbia River Treaty.* This investment was approved by Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a of the Appropriation Act No. 7, 1964:

To provide for and authorize the purchase out of United States dollars paid to Canada, pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin, together with any Protocol or Exchange of Notes relating thereto, of such obligations of the Government of the United States as may be approved by the Governor in Council, and the subsequent disposition of such obligations. . . .

148. *Sinking fund and other investments held for retirement of unmatured debt.* This item consists of unmatured securities of the Government of Canada purchased at a discount during the year. The amount represents the purchase price of the securities less interest earned since date of purchase.

149. *Loans to and investments in Crown corporations.* The following schedule shows the nature of these loans and investments at March 31, 1965:

	Capital stock at cost	Advances	Total
Central Mortgage and Housing Corporation.....\$		\$ 2,137,844,000	\$ 2,137,844,000
Canadian National Railways.....	1,020,207,000	413,932,000	1,434,139,000
Farm Credit Corporation.....		441,341,000	441,341,000
The St. Lawrence Seaway Authority...		409,224,000	409,224,000
National Harbours Board.....		199,833,000	199,833,000
Export Credits Insurance Corporation..	5,000,000	86,767,000	91,767,000
Atomic Energy of Canada Limited....	15,000,000	50,698,000	65,698,000
National Capital Commission.....		59,851,000	59,851,000
Canadian Overseas Telecommunication Corporation.....		55,054,000	55,054,000
Polymer Corporation Limited.....	30,000,000		30,000,000
Northern Canada Power Commission..		27,797,000	27,797,000
Canadian Broadcasting Corporation...		17,250,000	17,250,000
Eldorado Mining and Refining Limited	8,247,000		8,247,000
Canadian Arsenal Limited.....		7,500,000	7,500,000
Bank of Canada.....	5,920,000		5,920,000
Canadian Commercial Corporation....		3,500,000	3,500,000
Canadian National Railways—re Yarmouth-Bar Harbour ferry.....		715,000	715,000
Canadian National (West Indies) Steamships Limited.....	1,000	324,000	325,000
Canadian Patents and Development Limited.....	296,000		296,000
	<u>\$ 1,084,671,000</u>	<u>\$ 3,911,630,000</u>	<u>\$ 4,996,301,000</u>

The total of \$4,996,301,000 (an increase of \$412 million over the previous year) does not represent the total equity of the Government of Canada in its Crown corporations at March 31, 1965. This equity in fact amounted to \$6,492,951,000 as shown by their individual financial statements published in Volume III of the Public Accounts. The principal reason for this is that the Government of Canada maintains its accounts on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of capital assets which were charged by the Government as expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. On the other hand, the corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice, and in a number of cases have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year used by the Government.

The excess of \$1,496,650,000 existing at March 31, 1965 as a result of the foregoing is reconciled and explained in Appendix 12, Section 9 of Volume I of the Public Accounts entitled "Government of Canada Equity in Crown Corporations as at March 31, 1965".



The advances to Central Mortgage and Housing Corporation increased by \$222 million resulting from additional advances of \$248 million, less repayments of \$75 million, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, together with advances of \$71 million, less repayments of \$19 million, in respect of projects entered into with provinces, municipalities and universities. Other advances were repaid to the extent of \$3 million.

The total for the Canadian National Railways reflects a net increase of \$23 million due to a further investment of \$25 million in 4% preferred stock in the Company pursuant to section 9 of the Canadian National Railways Financing and Guarantee Act, 1964, partly offset by a reduction of \$1.4 million in temporary loans required by Air Canada.

The amount for Farm Credit Corporation shows an increase of \$102 million over the preceding year due to further loans of \$112 million under the Farm Credit Act, 1959, c. 43, less repayments of \$13 million, and an additional \$3.6 million subscription to the capital of the Corporation by the Government under section 12 of the Act.

The amount shown for The St. Lawrence Seaway Authority reflects a decrease of \$6.5 million comprising a net decrease of \$25 million in deferred interest on loans, offset by additional loans of \$18.5 million during the year (see paragraphs 161 and 209).

The amount shown for Export Credits Insurance Corporation reflects an increase of \$33 million in advances to enable the Corporation to provide long-term financing of export sales of capital goods.

There was an increase of \$12 million in advances to Atomic Energy of Canada Limited mainly to finance the construction of the Douglas Point, Ontario, generating station.

Loans to the National Capital Commission increased by \$6.9 million.

Advances to the Northern Canada Power Commission increased by \$5.4 million.

In 1964-65, the financing of the capital requirements of the Canadian Broadcasting Corporation was by way of loans and advances rather than by an expenditure appropriation as was formerly the case. These advances, under the authority of Vote L10, Appropriation Act No. 10, 1964 totalled \$14 million and are to be repaid by equal annual instalments over a twenty-year period.

150. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1965 in comparison with the balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Belgium.....	\$ 32,298,000	\$ 29,991,000	\$ 27,684,000
France.....	67,600,000	67,600,000	67,600,000
India.....	20,117,000	25,424,000	19,326,000
Netherlands.....	32,130,000	32,130,000	32,130,000
United Kingdom.....	1,057,045,000	1,039,277,000	1,058,863,000
Other countries.....	1,587,000	1,263,000	974,000
	<u>\$ 1,210,777,000</u>	<u>\$ 1,195,685,000</u>	<u>\$ 1,206,577,000</u>

The 1964 annual instalment of principal and interest on the loan to the United Kingdom was deferred by the United Kingdom in accordance with the provisions of the United Kingdom Financial Agreement Act. The increase in the indebtedness at March 31, 1965 results from the addition of interest of \$20 million for 1964 which was deferred to December 31, 2002.

The reduction in loans to India resulted from a net repayment of \$1.4 million on the loans for the purchase of aircraft and spare parts and a repayment of \$4.7 million of loans for the purchase of wheat and flour. No payments were due from France and the Netherlands during the year because of special payments made in 1962-63.

151. *Other loans and investments.* The balances comprising this asset item at March 31, 1965 with the comparable balances at the end of the two previous years, were:

	March 31, 1963	March 31, 1964	March 31, 1965
Subscriptions to capital of and working capital advances and loans to international organizations.....	\$ 693,998,000	\$ 702,130,000	\$ 709,754,000
Veterans' Land Act advances.....	224,486,000	243,327,000	255,661,000
Less: Reserve for conditional benefits.....	28,467,000	26,357,000	24,339,000
	196,019,000	216,970,000	231,322,000
Loans to provincial governments.....	116,818,000	113,652,000	98,436,000
Temporary loans to Old Age Security Fund.....	41,679,000	99,960,000	24,954,000
Housing projects for the Canadian Forces Advances pursuant to the Municipal Development and Loan Act.....	—	—	9,474,000
Less: Reserve for forgiveness of indebtedness.....	—	—	1,837,000
			7,637,000
Balances receivable under agreements of sale of Crown assets.....	8,303,000	5,959,000	4,147,000
Other balances.....	41,324,000	41,215,000	42,746,000
	<u>\$ 1,110,655,000</u>	<u>\$ 1,197,816,000</u>	<u>\$ 1,139,382,000</u>

The following is a listing of the balances comprising the \$709,754,000 shown for the first item in the above table at March 31, 1965:

Subscriptions to capital:	
International Monetary Fund.....	\$ 577,250,000
International Bank for Reconstruction and Development.....	80,483,000
International Development Association.....	40,668,000
International Finance Corporation.....	3,522,000
	701,923,000
Working capital advances and loans.....	7,831,000
	<u>\$ 709,754,000</u>

During the year Canada subscribed an additional \$7.9 million to the capital of the International Development Association.

The loans to provincial governments at March 31, 1965 with the comparable balances at the end of the two previous years were:

	March 31, 1963	March 31, 1964	March 31, 1965
Newfoundland.....\$	501,000	\$ 498,000	\$ 493,000
Nova Scotia.....	7,317,000	7,230,000	7,139,000
New Brunswick.....	31,084,000	34,371,000	32,788,000
Manitoba.....	12,331,000	11,643,000	10,708,000
Saskatchewan.....	26,874,000	27,231,000	28,461,000
Alberta.....	7,170,000	6,743,000	6,310,000
British Columbia.....	18,450,000	15,501,000	12,537,000
	<u>103,727,000</u>	<u>103,217,000</u>	<u>98,436,000</u>
Provincial Tax Collection Agreements			
Account .....	13,091,000	10,435,000	—
	<u>\$ 116,818,000</u>	<u>\$ 113,652,000</u>	<u>\$ 98,436,000</u>

The reduction of \$75 million in temporary loans to the Old Age Security Fund is the result of the surplus from transactions during 1964-65 in the special account provided for by section 11 of the Old Age Security Act, R.S., c. 200. The following is a summary of the transactions relating to the Fund during the past three years:

	1962-63	1963-64	1964-65
Collections of tax			
On sales.....\$	302,239,000	\$ 331,760,000	\$ 383,150,000
On personal incomes.....	273,650,000	302,600,000	431,900,000
On corporation incomes.....	115,250,000	115,750,000	145,250,000
	<u>691,139,000</u>	<u>750,110,000</u>	<u>960,300,000</u>
Payments of pensions under the Old Age Security Act.....	734,382,000	808,391,000	885,294,000
Deficiency (surplus) for the year.....	43,243,000	58,281,000	(75,006,000)
Preceding year's balance brought forward.....	(1,564,000)	41,679,000	99,960,000
Deficit at year-end.....\$	<u>41,679,000</u>	<u>\$ 99,960,000</u>	<u>\$ 24,954,000</u>

The advances pursuant to the Municipal Development and Loan Act, 1963, c. 13, were made to provide financial assistance to augment or accelerate municipal capital works programs. Section 11 of the Act provides for the forgiveness of 25% of the principal amount of a loan where the municipal project in respect of which the loan was extended is completed to the satisfaction of the Municipal Development and Loan Board on or before the 31st day of March 1966. At March 31, 1965 advances with respect to projects not completed amounted to \$7,349,000 and accordingly a reserve of 25% or \$1,837,000 was established to cover the portion of the advances to be forgiven.

152. *Securities held in trust.* The amount of \$53,060,000 shown under this heading represents securities held for the following accounts: guarantee deposits in respect of oil



and gas permits, \$27,011,000; Municipal Development and Loan Board, \$9,474,000; guarantee deposits in respect of customs duties and excise taxes, \$5,153,000; pilots' pension funds, \$4,644,000; contractors' securities, \$4,406,000; and other, \$2,372,000.

153. *Deferred charges.* The balances included under this heading at March 31, 1965 with the comparable balances at the close of the two previous years were:

	<u>March 31, 1963</u>	<u>March 31, 1964</u>	<u>March 31, 1965</u>
Unamortized portion of actuarial deficiencies—			
Canadian Forces Superannuation Account.....	\$ 524,849,000	\$ —	\$ 53,762,000
Public Service Superannuation Account	276,661,000	276,661,000	39,921,000
Royal Canadian Mounted Police Superannuation Account.....	3,533,000	—	4,153,000
	<u>805,043,000</u>	<u>276,661,000</u>	<u>97,836,000</u>
Unamortized loan flotation costs.....	131,601,000	123,700,000	110,749,000
	<u>\$ 936,644,000</u>	<u>\$ 400,361,000</u>	<u>\$ 208,585,000</u>

The amounts appearing under the heading "Unamortized portion of actuarial deficiencies" represent the balances of amounts credited to the superannuation accounts to cover actuarial deficiencies in those accounts with offsetting charges in the "Deferred charges" accounts. The deficiency of \$276,661,000 at March 31, 1964 in respect of the Public Service Superannuation Account was written off to net debt during 1964-65. The balances at March 31, 1965 represent the portions of actuarial deficiencies remaining after one-fifth of the deficiencies arising from pay increases authorized in 1963-64 and 1964-65 had been charged to expenditure in 1964-65 (see paragraph 173).

The item "Unamortized loan flotation costs" records the unamortized portion of discounts and commissions paid on the issuance of loans. The following is a summary of the transactions for the year:

Balance, April 1, 1964.....	\$ 123,700,000
Add:	
Discount and commissions on new loans.....	37,027,000
Adjustments.....	223,000
	<u>160,950,000</u>
Deduct:	
Amortization charges included in 1964-65 expenditure.....	50,201,000
	<u>110,749,000</u>
Balance, March 31, 1965.....	\$ 110,749,000

154. *Suspense accounts.* The balance of \$141,000 at March 31, 1964, representing the total of individual balances that remained unadjusted in the process of reconciling payments to chartered banks for the redemption of paid cheques with the amount of those cheques, was written off to net debt during the year under authority of Department of Finance Vote 27d, Appropriation Act No. 2, 1965.

155. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1965, unchanged from the two previous years, comprised the following balances:

Loan to China in 1946, under the Export Credits Insurance Act.....	\$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada.....	24,329,000
Loans to Greece in 1919 for the purchase of goods produced in Canada.....	6,525,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)..<	14,470,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain—last payment received in 1959–60.....	74,000
	<hr/>
	\$ 94,824,000

### Liabilities

156. The following table lists the liabilities at March 31, 1965 by main headings in the Statement of Assets and Liabilities in comparison with the corresponding balances at the close of the two previous years:

	<u>March 31, 1963</u>	<u>March 31, 1964</u>	<u>March 31, 1965</u>
Current and demand liabilities.....	\$ 1,631,338,000	\$ 1,619,692,000	\$ 1,432,616,000
Deposit and trust accounts.....	225,203,000	196,454,000	272,312,000
Annuity, insurance and pension accounts.....	4,747,017,000	5,131,054,000	5,675,841,000
Undisbursed balances of appropriations to special accounts.....	119,952,000	111,601,000	95,703,000
Deferred credits.....	107,739,000	119,447,000	113,208,000
Suspense accounts.....	6,055,000	5,118,000	5,532,000
Unmatured debt.....	17,961,836,000	18,740,097,000	18,978,214,000
	<u>\$ 24,799,140,000</u>	<u>\$ 25,923,463,000</u>	<u>\$ 26,573,426,000</u>

157. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1965, in comparison with the corresponding balances at the close of the two previous years, were:

	<u>March 31, 1963</u>	<u>March 31, 1964</u>	<u>March 31, 1965</u>
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association.....	\$ 757,284,000	\$ 586,996,000	\$ 367,898,000
Accounts payable.....	267,364,000	342,673,000	363,925,000
Outstanding treasury cheques.....	266,409,000	319,625,000	315,077,000
Interest accrued.....	196,974,000	215,973,000	231,173,000
Interest due.....	79,461,000	91,894,000	102,034,000
Matured debt.....	32,467,000	26,820,000	19,141,000
Other balances.....	31,379,000	35,711,000	33,368,000
	<u>\$ 1,631,338,000</u>	<u>\$ 1,619,692,000</u>	<u>\$ 1,432,616,000</u>

Non-interest bearing notes payable to the International Monetary Fund (\$345 million) and the International Development Association (\$22.9 million) are those portions of Canada's quotas of the capital of these international agencies which are not covered by cash or gold.

The amounts shown for "Accounts payable" are the totals of cheques issued in April in each year in payment of charges pertaining to the previous year.

158. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1965 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Provincial tax collection agreements.... \$	—	\$ —	\$ 48,797,000
Guarantee deposits.....	12,505,000	27,375,000	34,742,000
Indian trust funds.....	28,877,000	29,167,000	31,109,000
Deposits by Crown corporations.....	30,004,000	13,650,000	26,783,000
Post Office Savings Bank.....	25,880,000	24,605,000	23,255,000
Canadian Pension Commission (Administration trust fund).....	13,024,000	13,490,000	14,489,000
National Harbours Board.....	7,855,000	13,320,000	13,560,000
Instalment purchase of bonds by public service employees.....	12,297,000	12,535,000	13,257,000
Security deposits — Municipal Development and Loan Board.....	—	—	9,474,000
Contractors' holdbacks.....	17,724,000	8,604,000	8,802,000
Contractors' security deposits.....	13,025,000	7,961,000	6,028,000
Army Benevolent Fund.....	6,013,000	5,779,000	5,560,000
Other balances.....	57,999,000	39,968,000	36,456,000
	<u>\$ 225,203,000</u>	<u>\$ 196,454,000</u>	<u>\$ 272,312,000</u>

The federal Government collects provincial income taxes from corporations and persons on behalf of all provinces except Quebec. At March 31, 1965 collections had exceeded remittances by \$48,797,000. In the two preceding years remittances had exceeded collections by \$10,435,000 in 1964 and \$13,091,000 in 1963 and these amounts were included in "Loans to provincial governments" in those years.

The increase of \$7.4 million in the balance for "Guarantee deposits" was largely due to amounts deposited with the Department of Northern Affairs and National Resources as guarantees for oil, mineral and timber rights and licences.

The increase of \$13 million in "Deposits by Crown corporations" is attributable to deposits of \$10 million by Export Credits Insurance Corporation and \$5 million by Atomic Energy of Canada Limited, offset by a withdrawal of \$2 million by Eldorado Mining and Refining Limited.

The balance in the "Post Office Savings Bank", \$23,255,000, is the amount on deposit in 299,739 depositors' accounts—a reduction of \$1,350,000 and 1,285 accounts during the year. Interest is paid on deposits at a rate of  $2\frac{1}{2}\%$  per annum.



The \$36,456,000 shown for "Other balances" at March 31, 1965 represents the total of 85 balances, including: Veterans' trust funds, \$7,201,000; deferred pay of Armed Forces personnel, \$3,435,000; prepayments to Royal Canadian Mint, \$3,116,000; Northwest Territories revenue account, \$2,683,000; common school funds, \$2,678,000; Emergency Gold Mining Assistance holdbacks, \$2,318,000; National Research Council special fund, \$2,314,000; deposits made by the United States of America to cover expenditures to be made on its behalf, \$1,633,000; and the immigration guarantee fund, \$1,310,000.

159. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1965, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1963	March 31, 1964	March 31, 1965
Public Service Superannuation Account.	\$ 1,724,116,000	\$ 1,856,408,000	\$ 2,161,828,000
Canadian Forces Superannuation Account	1,605,797,000	1,821,525,000	2,028,123,000
Government Annuities Account.....	1,264,436,000	1,284,262,000	1,303,137,000
Royal Canadian Mounted Police Superannuation Account.....	37,284,000	45,987,000	57,707,000
Other balances.....	115,384,000	122,872,000	125,046,000
	<u>\$ 4,747,017,000</u>	<u>\$ 5,131,054,000</u>	<u>\$ 5,675,841,000</u>

The transactions during the year ended March 31, 1965 in each of the accounts listed above are summarized as follows:

*Public Service Superannuation Account*

Balance, April 1, 1964.....		\$ 1,856,408,000
<i>Add:</i>		
Actuarial adjustment—Contra—"deferred charges" account.....	\$ 169,457,000	
Interest credits.....	78,716,000	
Contributions by participants.....	61,817,000	
Contributions by government.....	58,995,000	
Other credits.....	596,000	
		<u>369,581,000</u>
		2,225,989,000
<i>Deduct:</i>		
Annuity payments.....	52,587,000	
Withdrawal of contributions.....	10,829,000	
Other charges.....	745,000	
		<u>64,161,000</u>
Balance, March 31, 1965.....		<u>\$ 2,161,828,000</u>

*Canadian Forces Superannuation Account*

Balance, April 1, 1964.....		\$ 1,821,525,000
<i>Add:</i>		
Interest credits.....	\$ 74,982,000	
Actuarial adjustment—Contra—"deferred charges" account.....	67,202,000	
Contributions by government.....	58,774,000	
Contributions by participants.....	35,176,000	
Other credits.....	256,000	
		<u>236,390,000</u>
		2,057,915,000
<i>Deduct:</i>		
Annuity payments.....	18,620,000	
Gratuities and withdrawal allowances.....	11,008,000	
Other charges.....	164,000	
		<u>29,792,000</u>
Balance, March 31, 1965.....		<u><u>\$ 2,028,123,000</u></u>

*Government Annuities Account*

Balance, April 1, 1964.....		\$ 1,284,262,000
<i>Add:</i>		
Interest credits.....	\$ 49,180,000	
Premiums received.....	30,162,000	
Sundry adjustments.....	10,000	
		<u>79,352,000</u>
		1,363,614,000
<i>Deduct:</i>		
Vested annuity and commuted value payments and refunds.....	59,782,000	
Transfer to revenue of the excess over actuarial value of outstanding contracts.....	695,000	
		<u>60,477,000</u>
Balance, March 31, 1965.....		<u><u>\$ 1,303,137,000</u></u>

*Royal Canadian Mounted Police Superannuation Account*

Balance, April 1, 1964.....		\$ 45,987,000
<i>Add:</i>		
Actuarial adjustment—Contra—"deferred charges" account.....	\$ 5,192,000	
Contributions by government.....	3,147,000	
Contributions by participants.....	2,101,000	
Interest credits.....	1,930,000	
Contributions by Newfoundland.....	17,000	
		<u>12,387,000</u>
		58,374,000
<i>Deduct:</i>		
Annuities and allowances payments.....	420,000	
Termination payments.....	243,000	
Other charges.....	4,000	
		<u>667,000</u>
Balance, March 31, 1965.....		<u><u>\$ 57,707,000</u></u>

The following is a listing of the major items included in "Other balances" with the balances for the previous two years shown for comparative purposes:

	March 31, 1963	March 31, 1964	March 31, 1965
Veterans' Insurance Fund.....	\$ 26,187,000	\$ 27,601,000	\$ 29,027,000
Civil Service Insurance Fund.....	24,030,000	24,239,000	24,289,000
Canadian Regular Forces Death Benefit Account.....	11,464,000	13,240,000	15,010,000
Unemployment Insurance Fund.....	14,636,000	16,796,000	14,282,000
Returned Soldiers' Insurance Fund....	13,850,000	13,295,000	12,707,000
Public Service Death Benefit Account..	7,467,000	8,612,000	9,876,000
Royal Canadian Mounted Police Dependents' Pension Fund.....	6,477,000	6,916,000	7,369,000
Public Service Retirement Fund.....	5,879,000	6,007,000	5,576,000
Pilots' Pension Funds.....	3,880,000	4,247,000	4,699,000
Members of Parliament Retiring Allowances Account.....	1,295,000	1,671,000	1,920,000
Sundry.....	219,000	248,000	291,000
	<u>\$ 115,384,000</u>	<u>\$ 122,872,000</u>	<u>\$ 125,046,000</u>

The transactions during the year ended March 31, 1965 in the Members of Parliament Retiring Allowances Account are summarized as follows:

Balance, April 1, 1964.....	\$ 1,671,000
Add:	
Contributions by participants.....	\$ 235,000
Contributions by government.....	234,000
Interest credits.....	72,000
	<u>541,000</u>
	2,212,000
Deduct:	
Annual allowances.....	288,000
Withdrawal allowances.....	4,000
	<u>292,000</u>
Balance, March 31, 1965.....	<u>\$ 1,920,000</u>

160. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances included in this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Colombo Plan Fund.....	\$ 85,325,000	\$ 84,451,000	\$ —
International Development Assistance Fund.....	—	—	82,245,000
Railway Grade Crossing Fund.....	26,703,000	17,649,000	6,865,000
Centennial of Confederation Fund.....	1,000,000	3,000,000	6,024,000
National Capital Fund.....	6,776,000	6,426,000	426,000
Other balances.....	148,000	75,000	143,000
	<u>\$ 119,952,000</u>	<u>\$ 111,601,000</u>	<u>\$ 95,703,000</u>



During the year the Colombo Plan Fund was charged with expenditures amounting to \$32,761,000. The unexpended balance of \$51,690,000 on March 31, 1965 was transferred to a special account to be known as the "International Development Assistance Fund" established under authority of a dollar vote of the Department of External Affairs, Vote 33d, Appropriation Act No. 2, 1965. Under the same authority, the special account was credited with the unexpended balance of \$30,555,000 in the sub-vote for International Development Assistance within Department of External Affairs Vote 35 of the Main Estimates, 1964-65.

Amounts of \$5,000,000, provided under section 265 of the Railway Act, R.S., c. 234, and \$100,000, provided under Department of Transport Vote 82, were credited to the account for the Railway Grade Crossing Fund during 1964-65. Expenditures totalling \$15,884,000 were incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During 1964-65 an amount of \$4,000,000 provided by Privy Council Votes 30 and 30a, was credited to the Centennial of Confederation Fund. Expenditures of \$976,000 were charged to the account.

During the year an amount of \$4,500,000 provided by Department of Public Works Vote 65 was credited to the account for the National Capital Fund, and the account was charged with payments totalling \$10,500,000 to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

161. *Deferred credits.* The following is an analysis of this item at the close of the 1964-65 fiscal year and the two previous years:

	<u>March 31, 1963</u>	<u>March 31, 1964</u>	<u>March 31, 1965</u>
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946.....	\$ 44,174,000	\$ 44,174,000	\$ 63,761,000
Deferred interest on loans to The St. Lawrence Seaway Authority.....	49,388,000	63,761,000	38,724,000
Equity in agency account of Crown Assets Disposal Corporation.....	5,884,000	5,173,000	5,522,000
Credits arising from the recording of agreements of sale of Crown assets...	6,743,000	4,702,000	2,991,000
Other balances.....	1,550,000	1,637,000	2,210,000
	<u>\$ 107,739,000</u>	<u>\$ 119,447,000</u>	<u>\$ 113,208,000</u>

The increase in the item "Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946" resulted from the Government of the United Kingdom exercising its option, for the first time since 1957, to defer the annual instalment of principal and interest on the loans.

During the year The St. Lawrence Seaway Authority paid \$43,062,000 on account of interest previously deferred, while payment of interest for the year 1964, amounting to \$18,025,000, was in turn deferred. This deferred interest is payable by the Authority over a 43-year period commencing in 1967, along with repayments of principal.

162. *Suspense accounts.* There was no appreciable change in this item on the liabilities side of the Statement during the year ended March 31, 1965. The year-end figure of \$5,532,000 included balances of \$1,257,000 for the Unclaimed Cheques Account, \$617,000 for the Hospital Insurance Outside Canada Account and \$566,000 for the National Defence Replacement of Materiel Account. In 1964-65, the proceeds of sales of materiel to other countries, totalling \$61,000, were credited to the Replacement of Materiel Account pursuant to section 11 of the National Defence Act, while \$506,000 for procurement of replacement materiel was charged to the Account.

163. *Unmatured debt.* A summary of the unmaturing debt outstanding at March 31, 1965, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1963	March 31, 1964	March 31, 1965
Bonds			
Payable in Canada.....	\$ 15,385,847,000	\$ 16,133,692,000	\$ 16,461,809,000
Payable in London.....	34,584,000	—	—
Payable in New York.....	376,405,000	376,405,000	376,405,000
	15,796,836,000	16,510,097,000	16,838,214,000
Treasury bills (not exceeding 180 days).....	2,165,000,000	2,230,000,000	2,140,000,000
	<u>\$ 17,961,836,000</u>	<u>\$ 18,740,097,000</u>	<u>\$ 18,978,214,000</u>

The increase of \$328,117,000 in the bond debt payable in Canada is the amount by which new borrowings of \$3,279 million during the year exceeded redemptions of \$2,951 million of prior issues. Canada savings bonds accounted for \$1,011 million of the new borrowings and \$551 million of the redemptions.

Issues payable in New York were valued at the official parity rate of \$1 U.S. = \$1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount shown for "Unmatured debt" along with issues maturing at later dates. In addition to treasury bills of \$2,140 million shown in the above summary as maturing within 180 days, the following issues, all payable in Canada, fall due within the current fiscal year:

Canada Savings Bonds 1953, due November 1, 1965.....	\$ 45,266,000
Loan of 1958-65, due September 1, 1965.....	449,891,000
Loan of 1962-65, due April 1, 1965.....	110,000,000
Loan of 1963-65, due April 1, 1965.....	90,000,000
Loan of 1963-66, due February 1, 1966.....	225,000,000
Loan of 1964-65, due July 1, 1965.....	400,000,000
Loan of 1964-65, due December 1, 1965.....	325,000,000
Loan of 1964-66, due February 1, 1966.....	105,000,000
	<u>\$ 1,750,157,000</u>

*Net Debt*

164. With the Liabilities amounting to \$26,573,426,000 (paragraph 156) and the Assets to \$11,068,953,000 (paragraph 144), the net debt at March 31, 1965 was \$15,504,473,000. The following is an analysis of the Net Debt Account for the year:

Balance, April 1, 1964.....	\$ 15,070,149,000	
<i>Add—Deficit for the year</i>		
Expenditure.....	\$ 7,218,275,000	
Revenue.....	7,180,310,000	
		37,965,000
Write-off of unamortized portion of the actuarial deficiency in the Public Service Superannuation Account.....		396,217,000
Write-off of Cheque Adjustment Suspense Account.....		142,000
Balance, March 31, 1965.....		<u>\$ 15,504,473,000</u>

*Contingent Liabilities*

165. A note on the Liabilities side of the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end and refers to page 7.83 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts outstanding at March 31, 1965 in comparison with the corresponding amounts at the close of the two previous years:

	<u>March 31, 1963</u>	<u>March 31, 1964</u>	<u>March 31, 1965</u>
Insured loans made by approved lenders under the National Housing Act, 1954. \$	4,123,000,000	\$ 4,499,000,000	\$ 4,949,864,000
Railway securities guaranteed as to principal and interest.....	1,381,361,000	1,377,611,000	1,368,298,000
Deposits maintained by chartered banks in Bank of Canada.....	741,870,000	840,037,000	897,218,000
Guarantees under Export Credits Insurance Act, Part I .....	333,646,000	378,096,000	468,644,000
Loans made by chartered banks to Canadian Wheat Board.....	80,331,000	151,313,000	169,770,000
Other contingent liabilities of determinate amounts.....	73,998,000	82,217,000	112,248,000
	<u>\$ 6,734,206,000</u>	<u>\$ 7,328,274,000</u>	<u>\$ 7,966,042,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 Act.



## Comments on Assets and Liabilities

166. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

167. The Statement of Assets and Liabilities as at March 31, 1965 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditures as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. This practice has been the subject of comments in previous Reports and has been considered by the Public Accounts Committee which holds the view that outlays on properties in the Greenbelt are expenditures of the Crown rather than income-producing investments. The Committee has on two occasions requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. This is one of the observations of the Standing Committee on Public Accounts which has not yet been dealt with by Executive action (see Appendix 1, item 27).

As is pointed out in paragraph 55 of this Report, the funds required by the Canadian Broadcasting Corporation to meet its capital expenditures during the year ended March 31, 1965 were provided by means of loans from the Government instead of grants as in the past.

The explanation quoted above means that the costs of government buildings and other public works undertaken by government departments are charged to expenditure at the time of acquisition or construction because the departments are dependent on public revenues for their capital needs. The two Crown corporations referred to above are also dependent on public revenues for their capital needs.

168. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year, is given in the several departmental sections of Volume II of the Public Accounts.

The Public Accounts Committee in its Sixth Report 1964 expressed agreement with our observation that it would be more informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts each year. As a result, a summary similar to the following is included for the first time in Volume I of the Public Accounts for 1964-65:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture.....	\$ 440,218	\$ 849,636	\$ 21,258	\$ 1,311,112
Citizenship and Immigration.....	196,564	442,968	57,733	697,265
Defence Production.....	4,270	1,768	259,329	265,367
External Affairs.....	333,210	482,231	14,700	830,141
Finance.....	21,198	7,816	59,922	88,936
Justice.....	134,194	—	222	134,416
Labour.....	120	—	17,465	17,585
Unemployment Insurance				
Commission.....	54,798	127	469	55,394
Fund.....	4,873,774*	—	—	4,873,774
Mines and Technical Surveys.....	61,222	15,048	595	76,865
National Defence.....	4,514,477	2,502,328	88,650	7,105,455
National Health and Welfare.....	1,328,976	281,547	72,710	1,683,233
National Research Council.....	108,535	12,201	561	121,297
National Revenue—				
Customs and Excise Division....	13,338,855*	—	1,241,672*	14,580,527
Taxation Division.....	175,121,388*	—	45,137,672*	220,259,060
Northern Affairs and National				
Resources.....	187,342	412,228	4,075	603,645
Public Printing and Stationery....	129,766	2,035	—	131,801
Public Works.....	627,415	484,939	10,959	1,123,313
Royal Canadian Mounted Police...	385,548	5,913	2,003	393,464
Trade and Commerce.....	134,013	9,069	11,566	154,648
Transport.....	3,169,176	600,885	802	3,770,863
Veterans Affairs.....	3,784,409	2,038,803	369,096	6,192,308
Other departments.....	29,956	11,157	9,103	50,216
	<u>\$ 208,979,424</u>	<u>\$ 8,160,699</u>	<u>\$ 47,380,562</u>	<u>\$ 264,520,685</u>

\* These amounts relate to both current and previous years.

The accounts receivable totals shown in the above table were the amounts remaining after certain uncollectable debts

- (a) of \$1,000 or less had been deleted from the accounts during the year under authority of section 23 of the Financial Administration Act, and
- (b) in excess of \$1,000 had been written off under authority of Department of Finance Vote 22d of Appropriation Act No. 2, 1965.

A summary of these deletions by departments is as follows:

Department	Items	Deleted under authority of		
		Financial Administra- tion Act, sec. 23	Finance Vote 22d	Total deleted
Agriculture.....	440	\$ 5,125	\$ 14,791	\$ 19,916
Citizenship and Immigration.....	1,128	172,972	88,174	261,146
Mines and Technical Surveys.....	35	189	148,759	148,948
National Defence.....	460	8,123	175,568	183,691
National Health and Welfare.....	307	82,473	29,193	111,666
National Revenue—				
Customs and Excise Division.....	156	2,997	—	2,997
Taxation Division.....	957	299,827	12,070	311,897
Northern Affairs and National Resources.....	47	7,934	—	7,934
Public Works.....	98	13,133	—	13,133
Royal Canadian Mounted Police.....	38	8,599	—	8,599
Veterans Affairs.....	879	87,983	175,430	263,413
Other departments.....	145	2,998	—	2,998
	<u>4,690</u>	<u>\$ 692,353</u>	<u>\$ 643,985</u>	<u>\$ 1,336,338</u>

We have drawn attention in the past several years to the fact that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

The Public Accounts Committee expressed concern over this situation and in its Sixth Report 1964 (see Appendix 1, item 28) suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded and that an accounts receivable control system is instituted. The Committee also stated that collection procedures must be tightened up and firmly enforced.



The Treasury Board is presently developing a policy on revenue control designed to eliminate the conditions referred to by the Auditor General and the Public Accounts Committee and also by the Royal Commission on Government Organization.

169. *Accounts receivable—Department of National Revenue.* It will be noted from the table in paragraph 168 that the accounts due to the Department of National Revenue at the close of the year accounted for \$235 million of the overall total of \$265 million owing to the Crown.

With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department of National Revenue, analyses have been prepared showing the nature and amounts of the unpaid accounts.

CUSTOMS AND EXCISE DIVISION.—The following is a summary of the accounts receivable of this Division at March 31, 1965 compared with the preceding year:

	Year ended March 31	
	1965	1964
Collectable—		
Excise tax.....	\$ 11,381,000	\$ 9,266,000
Customs seizures.....	531,000	197,000
Duties and taxes on importations.....	1,227,000	134,000
Investigations.....	197,000	22,000
Salary overpayments.....	2,000	1,000
	<hr/> 13,338,000	<hr/> 9,620,000
Uncollectable—		
Excise tax.....	1,022,000	591,000
Customs seizures.....	47,000	29,000
Duties and taxes on importations.....	166,000	165,000
Investigations.....	3,000	—
Salary overpayments.....	—	2,000
Sundry.....	4,000	4,000
	<hr/> 1,242,000	<hr/> 791,000
	<hr/> \$ 14,580,000	<hr/> \$ 10,411,000

In our 1964 Report we stated that the figures for that year did not include (a) certain sales tax assessments, (b) customs amending entries unpaid for less than six months, and (c) inactive accounts of the Investigations Branch. At March 31, 1965 these amounts have been included and account in large measure for the increase of \$4.2 million shown in the above statement.

The Customs and Excise Division is preparing to extend the system of accounts receivable control accounts to include all amounts receivable by the Department. As yet it is not possible to report upon the age of the accounts as the records are maintained at the district level and the information has not been provided to head office. We understand that this information will be available at head office next year.

During the year 156 items amounting to \$2,997 were written off with Executive approval under authority of section 23 of the Financial Administration Act.

TAXATION DIVISION.—At March 31, 1965 the following amounts were recorded as accounts receivable:

<u>Classification</u>	<u>No. of accounts</u>	<u>Amount</u>
Income tax—		
Individuals.....	127,615	\$ 121,659,000
Corporations.....	5,551	66,907,000
Tax deductions and non-residents.....	14,241	11,065,000
Deferred tax.....	—	6,238,000
		<i>205,869,000</i>
Provincial income tax.....	—	42,000
Estate tax and succession duty.....	931	14,345,000
Sundry salary overpayments.....	—	3,000
		<u>\$ 220,259,000</u>

Only \$43 million, or 20% of the total of \$220 million shown above, consists of current collectable accounts. The remainder, \$177 million (114,196 accounts), had not been collected for the following reasons:

	<u>March 31 1965</u>	<u>February 29 1964</u>
1. Under appeal.....	\$ 75,102,000	\$ 67,778,000
<p>There were 943 accounts under appeal at March 31, 1965, of which 310 were secured and 51 partially secured for the reason that no collection arrangements were possible. Section 51 of the Income Tax Act provides that "the taxpayer shall, within 30 days from the day of mailing of the notice of assessment, pay to the Receiver General of Canada any part of the assessed tax, interest and penalties then remaining unpaid, whether or not an objection to or appeal from the assessment is outstanding".</p>		
2. Uncollectable.....	45,095,000	25,321,000
<p>There were 19,801 uncollectable accounts at March 31, 1965. The increase of approximately \$20 million in uncollectable accounts, many of them in amounts over \$1,000, in the fiscal year 1964-65, results from a detailed systematic review of all accounts considered but not classified as uncollectable. Uncollectable amounts in excess of \$1,000 may be written off only with the sanction of Parliament and no such approval for tax accounts has been sought by the Division since 1961-62. However, two items representing salary overpayments and amounting to \$12,070 were</p>		

	March 31 1965	February 29 1964
deleted under parliamentary authority by Department of Finance Vote 22d. Amounts of \$1,000 or less may be written off with Executive approval and 955 accounts amounting to \$299,827 were written off during the year.		
3. Current assessments.....	30,719,000	21,475,000
Accounts that were under 90 days old at March 31, 1965 number 76,384 and represent recent assessments and re-assessments, the bulk of which are not due until April 30, 1965.		
4. Duplicate assessments (estimated).....	5,000,000	8,000,000
When deemed necessary, duplicate assessments are raised against individuals or corporations with which the originally assessed taxpayer may be associated or to which he might transfer assets.		
5. Temporarily uncollectable.....	14,951,000	—
There are 17,068 accounts in this category and they represent taxpayers who are unemployed, in jail, non-residents expected to return to Canada, operators of seasonal businesses and their employees, self-employed, receiving foreign income who at present are immune to our collection process, or who are unable to pay now but whose financial circumstances are likely to improve.		
6. Deferred tax.....	6,238,000	6,586,000
Deferred tax is collectable only on the death of a taxpayer, in accordance with section 13 of the Income War Tax Act, 1943-44, c. 14. This section gave the taxpayer the option of paying part of the 1942 tax in 1943 or thereafter at a discount or having his executors pay it from his estate.		
7. Provincial income tax.....	42,000	42,000
This amount, which is now regarded as uncollectable, represents the balance of 1939-40 provincial income tax arrears for Quebec and Ontario transferred to the Federal Government for collection under authority of the Dominion-Provincial Taxation Agreement Act 1942, c. 13.		
	<u>\$ 177,147,000</u>	<u>\$ 129,202,000</u>



In our opinion analyses or details of this nature relating to the larger groupings of debts due to the Crown, should be prepared by the departments responsible and made available to Parliament each year, through the medium of the Public Accounts or in the departmental annual reports.

170. *Cash on deposit in chartered banks.* Included in the item "Current assets" is an amount of \$682 million on deposit in bank accounts. Of this amount \$634 million was on deposit in the chartered banks of Canada, \$31 million in the Bank of Canada and \$17 million in banks in London, New York, Paris and Bonn.

The balances on deposit in foreign bank accounts are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, R.S., c. 13, does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada in excess of an aggregate of \$100 million earn interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, calculations being based on the minimum weekly balances. No interest was received on the aggregate of \$100 million which was kept on deposit in the chartered banks throughout the year 1964-65. (See also paragraph 62.)

171. *Agricultural Commodities Stabilization Account.* The operations of the Agricultural Stabilization Board during the year 1964-65 resulted in a loss of \$61,500,000. This loss, together with a balance of loss of \$2,555,000 brought forward from the previous year, was met to the extent of \$57,118,000 by funds provided by Department of Agriculture Vote 80d, Appropriation Act No. 2, 1965, and to the extent of \$5,619,000 by major services provided without charge by government departments (see paragraph 213). The balance of the loss amounting to \$1,318,000 remains as a charge to the Agricultural Commodities Stabilization Account and is included in the balance of \$23,152,000 at March 31, 1965. This amount appears as a current asset item (see paragraph 145) although to the extent of \$1,318,000 it represents a loss which must eventually be written off to expenditure (see also paragraph 140).

172. *Sinking fund and other investments held for retirement of unmatured debt.* On August 10, 1964 the Minister of Finance purchased \$4.1 million of 2½% Canada bonds payable in New York and due September 1, 1974 and \$1.8 million of a similar issue due on September 15, 1975. Interest earned on these bonds amounting to \$101,000 was credited to this asset account in error instead of being credited to revenue. Furthermore, an amortization adjustment of \$57,000 representing the portion of the discount on these bonds applicable to the year was not made. Consequently, this asset item is under-valued by \$158,000 and the Department of Finance revenue item "Return on Investments" is understated by a similar amount.

173. *Deferred charges—Unamortized portions of actuarial deficiencies.* The balances in these accounts represent the remaining portions of the actuarial deficiencies in the Canadian Forces Superannuation Account \$53,762,000, the Public Service Superannuation

Account \$39,921,000, and the Royal Canadian Mounted Police Superannuation Account \$4,153,000, after one-fifth of the deficiencies which arose when general pay increases were authorized had been charged to expenditure in 1964-65 (see paragraph 63).

174. *Suspense accounts.* Reference was made under the heading "Cheque Adjustment Suspense" in paragraph 124 of last year's Report to a balance of \$141,392 representing unidentified net differences which were encountered between 1942-43 and 1961-62 in reconciling paid cheques with the payments made to the banks. In 1964-65 this balance was written off to net debt under authority of Department of Finance Vote 27d, Appropriation Act No. 2, 1965.

175. *Public Service Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$169,457,000 representing the total of: the actuarial deficiency in the Account as of December 31, 1962 with interest to December 31, 1964, amounting to \$119,556,000; the actuarial deficiency arising from salary increases authorized in 1963-64 with interest to December 31, 1964, amounting to \$30,506,000; and the actuarial deficiency of \$19,395,000 arising from salary increases authorized in 1964-65. As stated in paragraph 63, the deficiency of \$119,556,000 was written off to net debt during the year and one-fifth of the deficiency of \$49,901,000 resulting from salary increases authorized in 1963-64 and 1964-65 was charged to expenditure, leaving a balance of \$39,921,000 in the deferred charge account to be written off to expenditure over the next four years.

176. *Canadian Forces Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$67,202,000 representing the amount of the actuarial deficiency in the Account arising from pay increases authorized for members of the Forces during the year. As stated in paragraph 63, one-fifth of the deficiency was charged to expenditure, leaving a balance of \$53,762,000 in the deferred charge account to be written off to expenditure over the next four years.

177. *Royal Canadian Mounted Police Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$5,192,000 representing the amount of the actuarial deficiency in the Account arising from pay increases authorized for members of the Force during the year. As stated in paragraph 63, one-fifth of the deficiency was charged to expenditure, leaving a balance of \$4,153,000 in the deferred charge account to be written off to expenditure over the next four years.

### Crown Corporations

178. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus containing such information as, in the case

of a company incorporated under the Companies Act (Canada Corporations Act with effect from July 1, 1965), is required to be laid before the company by the directors at an annual meeting.

179. Section 87 of the Financial Administration Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation, and the report is required to state whether, in his opinion:

- (a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
  - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
  - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
  - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

180. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

181. Crown corporations classed as "agency" or "proprietary" corporations are listed in Schedules "C" and "D" to the Financial Administration Act. Those in the former class are responsible, in general, for the management of procurement, construction, service and disposal activities on behalf of the Crown. Those in the latter class are responsible for the management of lending or financial operations, and for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

182. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1965:



Corporation	Class	Reporting Minister
Atomic Energy of Canada Limited.....	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Canadian Arsenals Limited.....	Agency	Industry
Canadian Broadcasting Corporation.....	Proprietary	Secretary of State
Canadian Commercial Corporation.....	Agency	Industry
Canadian Corporation for the 1967 World Exhibition.....		Trade and Commerce
Canadian National (West Indies) Steamships, Limited.....	Agency	Transport
Canadian Overseas Telecommunication Corporation.....	Proprietary	Transport
Canadian Patents and Development Limited...	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Centennial Commission.....	Agency	Secretary of State
Cornwall International Bridge Company Limited.....	Proprietary	Transport
Crown Assets Disposal Corporation.....	Agency	Industry
Defence Construction (1951) Limited.....	Agency	National Defence
Eldorado Aviation Limited.....	Proprietary	Trade and Commerce
Eldorado Mining and Refining Limited.....	Proprietary	Trade and Commerce
Export Credits Insurance Corporation.....	Proprietary	Trade and Commerce
Farm Credit Corporation.....	Proprietary	Agriculture
The National Battlefields Commission.....	Agency	Northern Affairs and National Resources
National Capital Commission.....	Agency	Public Works
National Harbours Board.....	Agency	Transport
Northern Canada Power Commission.....	Agency	Northern Affairs and National Resources
Northern Ontario Pipe Line Crown Corporation.		Trade and Commerce
Northern Transportation Company Limited....	Proprietary	Trade and Commerce
Park Steamship Company Limited.....	Agency	Transport
Polymer Corporation Limited and subsidiary companies.....	Proprietary	Industry
The St. Lawrence Seaway Authority.....	Proprietary	Transport
The Seaway International Bridge Corporation, Ltd.....	Proprietary	Transport

183. Since the Auditor General has not been appointed the auditor of the following Crown corporations and public instrumentalities their accounts were not examined by him during the year:

Corporation or Instrumentality	Class	Reporting Minister
Air Canada.....	Proprietary	Transport
Bank of Canada.....		Finance
Canadian National Railways.....	Proprietary	Transport
The Canadian National Railways Securities Trust.....	Proprietary	Transport
The Canadian Wheat Board.....		Trade and Commerce
Central Mortgage and Housing Corporation....	Proprietary	Citizenship and Immigration
Industrial Development Bank.....		Finance

In its Eighth Report 1964 (see Appendix 1, item 39) the Public Accounts Committee recommended that the Auditor General be appointed the auditor or the joint auditor of these corporations or instrumentalities.

184. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case, an introductory comment describes briefly the origin of the corporation and the nature of its activity, and this is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

185. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Companies Act, 1934, pursuant to authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the Company is in Ottawa. Nuclear reactors and major research and development laboratories are maintained at Chalk River, Ontario. The Whiteshell nuclear research establishment, situated 65 miles north of Winnipeg, is in operation and, although still incomplete, complements the Chalk River nuclear laboratories. The Company has constructed some 268 housing units, an apartment building and a shopping centre in a new town called "Pinawa" to accommodate the employees and their families at the Whiteshell establishment. The Commercial Products division in Ottawa is responsible for the processing of radioisotopes produced in the Company's reactors, the designing of equipment for the use of radioactive materials, and the marketing of products and equipment on a commercial basis. The Power Projects division, located in Toronto, is responsible for the engineering, development, construction and management of nuclear power generating projects. A nuclear power demonstration plant was constructed at Rolphton, Ontario, to produce steam for sale to the Hydro-Electric Power Commission of Ontario to generate electric power. The Company, in co-operation with the Hydro-Electric Power Commission of Ontario, is building Canada's first full-scale nuclear power generating station at Douglas Point, Ontario. It is expected that the station will be commissioned in 1966.

The Company's accumulated costs of research facilities at Chalk River, Whiteshell and Rolphton, charged to research expense and financed by parliamentary appropriations, amounted to \$177,086,000 at March 31, 1965. The cost of the Douglas Point generating station, amounting to \$44,732,000 at the year-end, is being financed by Government of Canada loans.

The Crown's equity in the Company at March 31, 1965 totalled \$71,346,000 comprising: loans for housing, \$8,840,000; loans for construction of Douglas Point generating station, \$44,994,000; capital stock, \$15,000,000; and retained earnings, \$2,512,000.

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1965	1964
<i>Research Program—Operating</i>		
Expense.....	\$ 38,445,000	\$ 34,063,000
Income: Gross income from housing accommodation, hospitals, transportation, sales of steam, etc.....	3,594,000	2,605,000
Excess of expense over income.....	<u>\$ 34,851,000</u>	<u>\$ 31,458,000</u>
Provided for by:		
Parliamentary appropriation.....	\$ 34,861,000	\$ 31,469,000
Less: Unexpended balance refundable to Government of Canada.....	10,000	11,000
	<u>\$ 34,851,000</u>	<u>\$ 31,458,000</u>
<i>Research Program—Capital</i>		
Expense.....	<u>\$ 17,327,000</u>	<u>\$ 14,219,000</u>
Provided for by:		
Parliamentary appropriation.....	\$ 10,307,000	\$ 13,466,000
Retained earnings.....	7,020,000	753,000
	<u>\$ 17,327,000</u>	<u>\$ 14,219,000</u>
<i>Commercial Operations</i>		
Income.....	<u>\$ 7,416,000</u>	<u>\$ 4,403,000</u>
Expense:		
Cost of sales.....	3,680,000	2,138,000
Research, selling and administrative.....	3,074,000	2,151,000
	<u>6,754,000</u>	<u>4,289,000</u>
Excess of income over expense.....	<u>\$ 662,000</u>	<u>\$ 114,000</u>

The increase of \$4,382,000 in research operating expense was due in part to increases in salaries and wages including welfare benefits, \$1,972,000, and professional and special services, \$261,000. In addition, there was no counterpart during the year for revenue from



the NRU reactor amounting to \$1,239,000 which was applied as a reduction of expense in 1963-64. The increases in personnel of 133 at the Whiteshell establishment, 67 at the Power Projects division, and 61 at Chalk River and head office, together with normal increases in rates of remuneration, account for the increase in salaries and wages. Increased activities at the Whiteshell establishment and the Power Projects division largely account for the increased costs with respect to professional services.

186. *Canadian Arsenals Limited*. This Company, with its head office in Ottawa, was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, 1944, c. 18. The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations may be expanded on short notice.

A reduction in operations has taken place in the last ten years. The Company's sales reached a peak in 1954-55 when Korean war contracts were still being completed. Except for a minor increase in 1961-62, there has been a steady decline in sales from \$80 million in 1954-55 to \$7.5 million in 1964-65. Over the years, the Company has been the custodian of Crown-owned plants representing an investment of over \$100 million. During 1964-65, the Government sold the Explosives division plant, Valleyfield, Quebec, (see paragraph 59) and transferred the land and buildings of the Instrument and Electronics division, Scarborough, Ontario, to the Department of Public Works. At March 31, 1965 the Company was the custodian of seven plants, the total cost of which was \$70 million, but only four plants were in operation.

At March 31, 1965 the Company's operations were financed by working capital advances of \$7,500,000 from the Minister of Finance. Advances from the Defence Production Revolving Fund, amounting to \$1,250,000, were repaid during the year.

The following is a comparative summary of the results of operations for the last two years:

	Year ended March 31	
	1965	1964
Income—		
Sales.....	\$ 7,534,000	\$ 10,051,000
Miscellaneous.....	590,000	651,000
	<u>8,124,000</u>	<u>10,702,000</u>
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed.....	6,897,000	9,102,000
Indirect labour and other overhead expenses not absorbed in cost of sales.....	4,226,000	4,763,000
Plant shut-down costs.....	1,029,000	362,000
Administrative expenses.....	449,000	733,000
	<u>12,601,000</u>	<u>14,960,000</u>
Excess of expense over income.....	<u>\$ 4,477,000</u>	<u>\$ 4,258,000</u>

The \$4,477,000 required to meet the excess of expense over income was provided by a parliamentary appropriation through the Department of Defence Production.

Indirect labour and overhead expenses for the year totalled \$6,900,000, compared with \$8,688,000 for the previous year, of which \$2,674,000 was included in cost of sales. It has been the Company's practice to apply overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$4,226,000, is described in the above summary as indirect labour and other overhead expenses not absorbed in cost of sales.

Plant shut-down costs of \$1,029,000 include the write-down of inventories, termination leave and other costs with respect to the sale of the explosives plant at Valleyfield, Quebec; expenditures incurred in the transfer and disposal of machinery and equipment and other costs in closing down the instrument and electronics plant at Scarborough, Ontario; and costs of transferring small ammunition and quick firing case line facilities to other plants from the Dominion Arsenal plant at Quebec City, preparatory to its closing.

The Company had \$207,000 on deposit with an insurance company at March 31, 1965 in respect of an insurance policy which provides life, medical, surgical and other insurance benefits to employees and their dependents. The amount represents the excess of premiums over charges for claims incurred plus administrative fees charged by the insurance company. It is available for possible catastrophe, excessive claims or additional benefits without increase in premiums. During the year the amount on deposit was deemed to exceed the contingency reserve requirements. Accordingly, on December 1, 1964 the sum of \$200,000 was used to pay for a single premium life insurance policy for participants in the plan who have been in the Company's service for at least 77 months. Employees' premiums and the Company's matching contribution paid in during the year amounted to \$149,000, and interest amounting to \$19,000, calculated at approximately 5%, was credited during the year by the insurance company.

Inventories on hand at the year-end were less by \$2,370,000 or 56.6% than their level at March 31, 1964. The inventory reduction included write-offs of \$345,000 largely due to the closing of the plants referred to previously.

187. *Canadian Broadcasting Corporation.* This Corporation, established by the Canadian Broadcasting Act, 1936, c. 24, superseded by the Broadcasting Act, 1958, c. 22, operates the national television and radio broadcasting services and also administers an international shortwave service on behalf of the Government of Canada. The head office of the Corporation is in Ottawa, with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg, Edmonton and Vancouver and an engineering headquarters in Montreal.

In previous years, the Corporation derived its funds for both capital and operating requirements in excess of advertising revenue from grants provided by parliamentary appropriations. However, funds for its capital requirements for 1964-65 were provided by loans of \$14,250,000 repayable in equal annual instalments over 20 years with interest payable at rates of  $5\frac{1}{4}\%$  and  $5\frac{3}{8}\%$  per annum (see paragraph 55).

At March 31, 1965 the Crown's equity in the Corporation amounted to \$55,190,000 represented by capital assets at cost of \$81,566,000, less accumulated depreciation of \$36,209,000, and working capital of \$9,833,000 (including \$833,000 unexpended balance of Government of Canada loans to finance the acquisition of capital assets).

The following is a comparative summary of the results of operations for the last two years:

	Year ended March 31	
	1965	1964
Expense—		
Cost of production and distribution:		
Cost of programs.....	\$ 79,619,000	\$ 74,388,000
Network distribution.....	10,727,000	10,428,000
Station transmission.....	5,004,000	4,407,000
Payments to private stations.....	4,752,000	4,927,000
Commissions to agencies and networks.....	3,719,000	3,805,000
	103,821,000	97,955,000
Operational supervision and services.....	10,317,000	9,067,000
Selling and general administration.....	8,459,000	7,812,000
Emergency broadcasting.....	869,000	624,000
Interest on loans to finance the acquisition of capital assets....	374,000	—
Total expense including depreciation.....	123,840,000	115,458,000
Income—		
Advertising revenue, etc.....	33,449,000	33,010,000
Net expense.....	\$ 90,391,000	\$ 82,448,000

The parliamentary grant "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service" for the year of \$85,869,000 comprising net expense of \$90,391,000 shown above, less depreciation of \$4,522,000 charged for cost ascertainment purposes, was provided by the Government of Canada under authority of Canadian Broadcasting Corporation Vote 1, Appropriation Act No. 10, 1964.

The net operating amount required by the Corporation increased by \$7,492,000 from \$78,377,000 for the year ended March 31, 1964 to \$85,869,000 for the year ended March 31, 1965, an increase of 9.5% compared with \$5,722,000 or 7.9% in the previous year. The increase in expense experienced in practically all departments was attributable to many factors. Salaries and wages increased by \$4,314,000 mainly due to the implementation of wage increment provisions of collective bargaining agreements, salary increases to supervisory staff and the engaging of an additional 284 employees primarily to staff two new television stations and one new radio station. Other increases were attributed to additional television broadcasting hours as a result of the addition of the two new television stations, a general rise in radio AM and FM program broadcasting costs and in costs due to expanded microwave and line facilities for both radio and television. The increase of \$439,000 in income is accounted for by a rise of \$864,000 in television advertising offset by a decline of \$384,000 in radio advertising and \$41,000 in other income.



The overtime content of salaries and wages was \$3,398,000 compared with \$3,202,000 in the previous year. Cost of programs amounting to \$79,619,000 includes payments to employees for scheduled hours during daily or weekly tours of duty which are in excess of the actual hours of attendance, which we estimate amounted to \$450,000 during the year (see paragraph 56). In addition, an estimated \$150,000 was paid to employees as premium pay for elapsed time between assigned and actual meal periods and for turn-around periods, being the difference between elapsed time and an established minimum period of 12 hours from the end of one tour of duty to the commencement of the next.

The Statement of Operations segregates Cost of Production and Distribution under the headings of "Programs without Advertising, \$71,504,000" and "Programs with Advertising, \$32,317,000". The former comprises two types of programs, those which are available for advertising but which have not attracted advertising revenue, and programs of a public service nature which, because of Corporation policy, are not available to prospective advertisers. A segregation of the total cost of "Programs without Advertising" under these headings follows:

	Programs Available for Advertising	News and Public Service Programs	Total
Cost of programs.....	\$ 23,001,000	\$ 36,214,000	\$ 59,215,000
Network distribution.....	2,606,000	5,827,000	8,433,000
Station transmission.....	1,328,000	2,528,000	3,856,000
	<u>\$ 26,935,000</u>	<u>\$ 44,569,000</u>	<u>\$ 71,504,000</u>

The total cost of production and distribution of programs with advertising potential was therefore \$59,252,000, comprising the \$26,935,000 shown above and the cost of programs with advertising amounting to \$32,317,000. As gross advertising revenue amounted to only \$32,872,000 the difference of \$26,380,000 was financed by the parliamentary grant. The recommendation of the Public Accounts Committee in its Fifth Report 1964 that this information be disclosed more clearly in the Corporation's annual Statement of Operations is considered to have been implemented by means of an explanatory footnote to its financial statements.

The following asset balances at March 31, 1965 are compared with the corresponding balances at March 31, 1964:

	March 31	
	1965	1964
Programs completed and in process of production.....	\$ 5,249,000	\$ 4,792,000
Film and script rights.....	1,845,000	1,771,000
Engineering and production supplies.....	1,732,000	1,652,000
	<u>\$ 8,826,000</u>	<u>\$ 8,215,000</u>

Programs completed and in process of production are programs recorded in advance of broadcast on videotape and on film for the English and French networks and represented an increase of \$457,000 over the preceding year.

The balances shown in the above tabulation are after giving effect to the following write-offs:

Programs completed and in process of production—abandoned and cancelled because of technical deficiencies, scheduling difficulties or pre-emptions.....	\$ 338,000
Film rights—expired films not telecast because of unsuitability of program content, technical deficiencies or pre-emptions.....	85,000
Script rights—expired or unsuitable.....	90,000
Engineering and production supplies—unusable and obsolete.....	26,000
	<u>\$ 539,000</u>

The comparable write-offs in the previous year totalled \$232,000.

Additions of \$13,438,000 to fixed assets were financed to the extent of \$13,417,000 out of the loans of \$14,250,000 previously referred to and to the extent of \$21,000 from proceeds of sale of assets. Major capital expenditures included technical equipment, \$3,473,000; transmitters, towers and antennae, \$3,137,000; land for Place Radio-Canada, Montreal, \$2,000,000; transmitter buildings, radio studios, etc., \$1,913,000 and construction in progress, \$1,814,000, mainly for Place Radio-Canada and studios and offices in St. John's and Quebec City.

Capital assets in the amount of \$81,566,000 include the sum of \$8,942,000 expended during the last six years in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. The present estimate of the cost of future consolidation of facilities for the Corporation is \$127,842,000, shown below by locations, of which, subject to the provision of funds by Parliament, approximately \$4,366,000 will be expended during the year ending March 31, 1966 and \$123,476,000 during subsequent years:

Montreal.....	\$ 56,726,000
Toronto.....	39,194,000
Prairies.....	10,000,000
British Columbia.....	8,700,000
Maritimes.....	7,000,000
Ottawa.....	6,222,000
	<u>\$ 127,842,000</u>

In our reports to management for the last three years we have referred to the Corporation's physical inventory of its capital assets and the uncompleted reconciliation with the accounting records. This undertaking, begun in 1962, is now scheduled for completion by the Corporation in 1966.

We also examined the accounts and financial statements of the CBC Pension Board of Trustees and reported separately to the Trustees under date of June 4, 1965. An actuarial examination of the CBC Pension Plan as at March 31, 1964 indicated a possible actuarial deficiency in respect of future benefits payable of \$6,682,000 or about 6.7% of the \$100 million actuarial value. The Trustees recommended to the Corporation that no action be taken until the further analysis being made in June 1965 was completed and the effect of integration with the Canada Pension Plan was determined.

In our previous Reports we have made reference to the need for an independent study of the size, complexity and cost of the Corporation's organizational structure. The subject was discussed by the Standing Committee on Public Accounts of the House of Commons at meetings held on July 2 and 7, 1964 when this Committee was examining the Corporation's accounts for its 1962 and 1963 financial years. As a result of the discussions which took place at these meetings, the Public Accounts Committee made the following recommendations in its Fifth Report 1964:

1. Annual report of the Corporation

The Committee recommended that the President and Board of Directors of the Corporation take steps to improve the contents of the Corporation's annual report by including therein supplementary financial information concerning its operating and capital budgets and expenditures, for the purpose of providing additional information to Parliament and the public.

2. Statement of Operations

The Committee recommended that the President and the Board of Directors realign the format of the annual Statement of Operations of the Corporation in a manner designed to show separately in future for each fiscal year (1) the cost of programs produced without advertising but which were available for sale, and (2) the gross profit or loss derived from the sale of advertising from all sources.

3. Size of operating and capital requirements

The Committee expressed concern at the levels the Corporation's spending on operating and capital accounts has reached since television was first introduced into the national service in 1955. It commended consideration of this problem as one of the primary and immediate objectives of the Advisory Committee on Broadcasting, formation of which was announced by the government on May 25, 1964.

4. Authority of Comptroller over regional accountants

The Committee was disturbed to learn that the authority of the Comptroller over the accounting staffs at the regional centres of the Corporation across Canada is not clearly defined and expressed agreement with the view of the Auditor General that the regional accountants should be responsible directly to the Comptroller at head office in the interests of effective internal financial control. The Committee expressed the opinion that a clear definition of this responsibility is overdue and was pleased to be advised by the President that it will receive early attention. It requested the Auditor General to advise the Committee when this matter has been settled to his satisfaction.

5. Report of the Royal Commission on Government Organization

The Committee recommended that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

With respect to the Committee's first recommendation, the Corporation has provided more detailed information in its 1965 annual report and we believe that this should commend itself to the Members of the House of Commons. The Committee's second recommendation, as explained earlier, was likewise implemented by the Corporation when preparing its Statement of Operations for inclusion with its financial statements in its 1965 annual report.



The third recommendation was dealt with by the Advisory Committee on Broadcasting in its report to the Secretary of State made public on September 9, 1965. The fourth recommendation concerning the authority of the Comptroller over the regional accountants was resolved by an executive directive issued by the President on December 17, 1964 promoting the Comptroller to Vice-President, Finance and he now has effective control and supervision over the regional accountants across the country.

The fifth recommendation has not yet been implemented in the manner requested by the Public Accounts Committee (see Appendix 1, item 14). The Advisory Committee on Broadcasting, in commenting on the Royal Commission's studies at length in Chapter 8 of its report, was furnished by the Corporation with a 118-page memorandum on its views of Report 19. Presumably this memorandum will be available for tabling in the House in response to the request made by the Public Accounts Committee and will provide the information sought by that Committee.

188. *Canadian Commercial Corporation*. This Corporation which was established in 1946 by the Canadian Commercial Corporation Act, R.S., c. 35, provides procurement services in Canada for the governments of other countries and for international organizations. The Corporation's main customer is the United States Government. During the year \$161 million was expended by the Corporation on behalf of its customers as compared with \$217 million in the preceding year.

The equity of the Government of Canada in the Corporation as at March 31, 1965, amounted to \$3,875,000 consisting of \$3,500,000 working capital advances, \$150,000 reserve for United States exchange, and \$225,000 reserve for contingencies.

A comparative summary of the Corporation's operations for the last two years follows:

	Year ended March 31	
	1965	1964
Income—		
Purchase surcharges.....	\$ 100,000	\$ 145,000
Interest earned.....	98,000	133,000
Other income.....	7,000	—
	<u>205,000</u>	<u>278,000</u>
Expense—		
Salaries.....	67,000	444,000
Other expense.....	4,000	137,000
	<u>71,000</u>	<u>581,000</u>
Net profit (loss).....	<u>\$ 134,000</u>	<u>\$ (303,000)</u>

In previous Reports we have noted that the Department of Defence Production has been providing purchasing and accounting services free of charge to the Corporation. With the implementation of the Board of Directors' decision that the management and

staff should be provided by the Department of Defence Production and the functions of the Corporation transferred to and performed by the Department, the provision of free services has reached the point where, since July 1, 1964, the administrative expenses paid by the Corporation comprise only the salaries of the President and his secretary together with some minor expenses, all other expenses being charged to Department of Defence Production Vote 1. As a result the Corporation's operations show a net profit of \$134,000 for the year compared with a net loss of \$303,000 for the preceding year.

When approving the Corporation's budget for 1964-65 the Minister of Finance suggested that periodic payments of surplus earnings be made by the Corporation into the Consolidated Revenue Fund in accordance with section 81(3) of the Financial Administration Act. However, the Directors were of the opinion that, before doing this, a reserve for contingencies should be created to cover possible losses falling on the Corporation in respect of contracts with the United States and other governments. The Minister of Finance and Minister of Industry agreed to the creation of a reserve for contingencies in the amount of \$225,000 and directed the Corporation to transfer this amount from surplus earnings.

Since the Corporation has been charged with only a small portion of its actual expenses, the year's net profit of \$134,000 does not in our view represent earnings or surplus which may be used to create a reserve for contingencies.

189. *Canadian Corporation for the 1967 World Exhibition.* This Corporation was established under the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, c. 12, as amended by 1963, c. 32, for the purposes of planning, organizing, holding and administering the International and Universal Exhibition to be held in Montreal in 1967 in connection with the celebration of the Centennial of Confederation in Canada. An Act respecting the Canadian World Exhibition, passed by the Quebec Legislature in 1963, provides authority for the Province of Quebec and the City of Montreal to share with the Government of Canada in the financing of the Corporation.

The Corporation consists of a Commissioner General, a Deputy Commissioner General and fourteen other directors appointed by the Governor in Council, seven of whom are appointed on the recommendation of the Lieutenant-Governor in Council of the Province of Quebec.

Section 17 of the Act requires that the accounts and financial transactions of the Corporation shall be audited by the Auditor General of Canada and the Quebec Provincial Auditor. The auditors are to report annually in a manner similar to that required by the Financial Administration Act in respect of other Crown corporations.

An agreement was concluded on January 18, 1963 between Canada, the Province of Quebec and the City of Montreal confirming their acceptance of the legislation establishing and governing the Corporation, and outlining certain "settlements" between the Corporation and the three governments to be concluded after the closing of the Exhibition. As the latter would appear to be couched in general terms, it has been suggested to the management that, in order to avoid complications in the ultimate interpretation of the relevant

clauses, the Corporation's legal officers should discuss these matters with the federal and provincial government departments concerned with a view to having the exact intent of the agreement more precisely stated.

Section 8 of the Canadian Corporation for the 1967 World Exhibition Act provides that the Corporation shall submit a plan of organization to the Governor in Council and the Lieutenant-Governor in Council for approval, showing the number of officers and employees estimated to be required for the proper conduct of the business of the Corporation, the proposed classes of positions and rates of compensation for each class and that the Corporation shall not employ an officer or employee except in accordance with the plan of organization so approved.

The initial plan of organization was submitted and approved in April 1963, providing for a total establishment of 79 positions for 1963. A number of revised plans of organization have subsequently been submitted and approved providing for substantial increases in the establishment. The number of authorized positions as at December 31, 1964 was 540, the actual staff strength at that date being 489. The current revised plan of organization, approved by the Governor in Council on February 25, 1965, provides for progressive increases in the staff establishment up to a total of 997 positions by the end of 1965. The approval of the Lieutenant-Governor in Council has been received in respect of a portion of the plan covering the first half of 1965.

Under section 10 of the federal Act, the Corporation was required to "submit for the approval of the Governor in Council and the Lieutenant-Governor in Council, its overall plan for the Exhibition, setting forth the various undertakings and projects proposed by the Corporation in connection with the planning, organizing, holding and administering of the Exhibition, the estimated cost of each such undertaking or project and an estimate of the total capital costs and operating costs of the Corporation in respect of the Exhibition".

Any material changes in the plan, including estimates of costs, are to be submitted to the Governor in Council and the Lieutenant-Governor in Council for approval, and the Corporation may not initiate any undertaking or project, expend any money thereon or incur any liability therefor unless that undertaking or project is included in the approved overall plan or modification thereof.

The first overall plan was submitted on December 20, 1963, and was approved by the Governor in Council and the Lieutenant-Governor in Council, showing an estimated net cost to the Corporation of \$47,534,000. A revised plan was submitted early in 1965 and was approved by the Governor in Council and the Lieutenant-Governor in Council, increasing the estimated net cost to the Corporation to \$63,864,000. A subsequent revised plan was approved by the Governor in Council on August 13, 1965 (P.C. 1965-1494) and by the Lieutenant-Governor in Council on August 25, 1965 (Order in Council No. 1677). The cost summary included in this current overall plan shows an estimated net cost to the Corporation of \$61,581,000, made up as follows:



Construction costs.....		\$ 147,797,000
Operating and administration costs.....		102,907,000
		<hr/>
		250,704,000
Revenues.....	\$ 123,999,000	
Salvage.....	9,085,000	
Assets.....	56,039,000	189,123,000
		<hr/>
Net cost.....		\$ 61,581,000
		<hr/>

Under the authority of the federal and provincial legislation, the activities of the Corporation are financed by funds provided by Canada, the Province of Quebec and the City of Montreal, and the aggregate of the grants made by the three governments must not exceed \$20 million, \$15 million, and \$5 million respectively. In this connection reference is made to paragraph 57 of this Report.

Section 12 of the federal Act provides that the Corporation, with the approval of the Minister of Finance and the Minister of Finance of Quebec, may borrow money for the purposes for which it is incorporated on the security of notes, bonds or debentures of the Corporation. Such notes, bonds or debentures are to be issued at such rates of interest and subject to such other terms and conditions as may be approved by the Governor in Council and the Lieutenant-Governor in Council, and are to be jointly guaranteed by Canada and Quebec. In addition, subsection (5) of section 12 provides that the Corporation may borrow money from the Minister of Finance for temporary purposes and the Minister of Finance, with the approval of the Governor in Council and subject to such terms and conditions as the Governor in Council may prescribe, may lend money to the Corporation for such purposes out of the Consolidated Revenue Fund, but the aggregate of all amounts loaned to the Corporation under this subsection and outstanding at any time shall not exceed \$1 million.

The financial statements of the Corporation for the year ended December 31, 1964 showed that the grants made by the three governments in respect of 1963 and 1964 totalled \$18,878,000, of which the Government of Canada contributed \$9,439,000, the Government of the Province of Quebec, \$7,079,000 and the City of Montreal, \$2,360,000. The 1964 report of the joint auditors, made in compliance with section 17 of the Canadian Corporation for the 1967 World Exhibition Act, drew attention to the fact that the sum of the grants received by the Corporation from the participating governments (\$18,878,000 as shown above) and the outstanding commitments under major contracts entered into prior to the year-end (approximately \$26,000,000) exceeded the sum of the statutory amounts (\$40 million) which could be paid by the participating governments under the existing legislation.

Arrangements have since been concluded by the Corporation to borrow funds from the Minister of Finance to meet its future corporate needs. Vote L26b of the Supplementary Estimates for 1965-66, seven-twelfths of which was approved by Appropriation Act No. 6, 1965, assented to on June 30, 1965, reads:

L26b—To provide for the purchase, acquisition, and holding by the Minister of Finance of securities issued by the Canadian Corporation for the 1967 World Exhibition pursuant to subsection (1) of section 12 of the Canadian Corporation for the 1967 World Exhibition Act and to subsequently dispose thereof.....\$80,000,000.

Section 15 of the Canadian Corporation for the 1967 World Exhibition Act requires that the Corporation submit a capital budget and an operating budget annually to the Minister designated to act as the Minister for the Exhibition and to the Minister of Industry and Commerce for the Government of the Province of Quebec for their approval and for the approval of the Minister of Finance and the Minister of Finance of Quebec, and the capital budget so approved shall be laid by the first-mentioned Minister before Parliament. The approved revised capital budget for 1964 provided for an estimated cash requirement during the year of \$21,235,000. The actual outlays during the year amounted to \$11,541,000, summarized below in comparison with the expenditures for the preceding year:

	Year ended December 31	
	1964	1963
Site preparation.....	\$ 676,000	\$ —
Roads and bridges.....	7,134,000	—
Utilities.....	693,000	—
Landscape development.....	251,000	—
Parking lots.....	61,000	—
Buildings and special structures.....	1,749,000	—
Mass transit system.....	371,000	—
Temporary construction facilities.....	37,000	—
Special engineering studies.....	135,000	289,000
Office furniture and equipment and leasehold improvements.....	434,000	246,000
	<u>\$ 11,541,000</u>	<u>\$ 535,000</u>

The substantial difference between the amount budgeted and the actual expenditure for the year was due mainly to low tenders for certain projects, changes in planning, unrequired contingencies included in the budget and certain projects connected with underground services being behind schedule. Regarding the latter, the Corporation's officers were satisfied that while these projects were not started as early as expected, they were meeting the basic objective of being placed ahead of building construction on the site.

The \$11,853,000 Capital and Prepaid Development Costs appearing in the Corporation's Balance Sheet as at December 31, 1964 consists of the \$12,076,000 total expenditures for the two years, shown above, less \$223,000 amortization and depreciation provided and included in the operating costs for the two years. This amount of \$11,853,000 represents the proprietorship equity of the three governments at December 31, 1964.

The revised operating budget for 1964, approved by the Minister of Finance and the Minister of Finance of Quebec, amounted to \$6,776,000. The net operating costs for the year, including amortization and depreciation, totalled \$6,063,000, and are summarized in comparison with the expenses for the preceding year, as follows:

	Year ended December 31	
	1964	1963
Personnel expenses—		
Salaries and employee benefits.....	\$ 3,387,000	\$ 373,000
Travel and representation.....	294,000	81,000
Recruitment and relocation of personnel.....	78,000	16,000
Automobile rentals.....	54,000	2,000
	<u>3,813,000</u>	<u>472,000</u>
Administrative expenses—		
Rent, light and power.....	329,000	59,000
Postage, telephone and telegraph.....	134,000	28,000
Office stationery and supplies.....	96,000	24,000
Administrative services.....	72,000	39,000
Legal fees.....	55,000	13,000
Office furniture and equipment rental and maintenance.....	50,000	7,000
Translation.....	47,000	4,000
Architectural and engineering supplies.....	41,000	7,000
Publications.....	33,000	8,000
Directors' expenses and Executive Committee fees and expenses	22,000	18,000
Miscellaneous.....	46,000	1,000
	<u>925,000</u>	<u>208,000</u>
Advisory Committee's travel and subsistence expenses.....	65,000	8,000
Other expenses—		
Advertising and publicity.....	934,000	87,000
Consultants' fees and expenses.....	165,000	131,000
Site protection.....	27,000	—
	<u>1,126,000</u>	<u>218,000</u>
Total operating expenses.....	5,929,000	906,000
Amortization and depreciation—		
Amortization of leasehold improvements.....	123,000	45,000
Depreciation of furniture and equipment.....	41,000	14,000
	<u>164,000</u>	<u>59,000</u>
	6,093,000	965,000
Bank interest earned.....	30,000	3,000
Net operating costs.....	<u>\$ 6,063,000</u>	<u>\$ 962,000</u>

In our 1964 Report to the House of Commons, mention was made of certain transactions and practices originating in the closing months of the year 1963 which in the opinion of the joint auditors were inconsistent with those usually followed by Crown corporations and government agencies in similar circumstances. They were discussed in detail at that time with both the Commissioner General and the Deputy Commissioner



General who advised us that they considered the expenditures to be necessary. In accepting their explanations at that time, the auditors advised the management that further comment on the transactions and practices in question would be deferred until the completion of the examination of the Corporation's accounts for the 1964 fiscal year.

The examination of the 1964 accounts disclosed the continued existence of these practices accompanied by a substantial increase in their cost to the Corporation. Accordingly, when meeting with the Board of Directors in March 1965 to review the Corporation's financial statements for the year 1964, the joint auditors placed their views on the transactions and practices in question before the Board, pointing out that the practices continued unchanged from the previous year, and indicating that however justifiable and prevalent such expenditures may be in private enterprise, payment of such costs from public funds was open to question. The members of the Board were advised that federal and provincial government departments, Crown corporations and other government agencies are not permitted to incur such costs as a general practice. Brief details of these practices and their cost to the Corporation up to December 31, 1964 are as follows:

- (1) At December 31, 1963 the Corporation had entered into one-year contracts for the rental of 15 cars for the use of senior officers and employees on a basis whereby each officer would pay \$30 per month for his personal use of the car with the Corporation bearing all rental and fuel costs. Total expense for the Corporation during the year ended December 31, 1963 amounted to \$2,000. During 1964, the number of automobiles under rental increased to 33 with the total expense to the Corporation for the year amounting to \$54,000, made up of rental payments, parking costs and gasoline.
- (2) Last year the attention of management was drawn to relocation expenses involving payment of substantial moving, hotel and living expenses to several newly appointed senior officers and employees over extended periods pending relocation in new homes. We pointed out to management that in many cases relocation costs of this nature would not have qualified for payment under the regulations laid down by the federal or provincial Treasury Boards. The cost to the Corporation during the year ended December 31, 1963 amounted to \$9,000 involving reimbursement to eight newly appointed senior officers and employees, while for the year ended December 31, 1964 these costs amounted to \$69,000 and involved reimbursement to 55 newly appointed officers.
- (3) During 1963 twelve of the Corporation's senior officers were insured by the Corporation under a special insurance policy, the Corporation paying premiums at the rate of \$95 per annum for each principal sum of \$100,000 insured. In all cases the beneficiaries named were and remain the estates or dependents of the insured officers. The cost of this insurance to the Corporation in 1963 was \$800. The same arrangement has continued through 1964 under a new policy at a rate of \$72 per annum for each principal sum of \$100,000 insured. At the close of the year, 48 of the Corporation's officers were so insured at an annual cost to the Corporation of \$2,800.
- (4) The approved plans of organization show the number of officers and employees required, the proposed classes of positions and a salary range for each such class established with the approval of the federal and provincial Treasury Boards and the Civil Service Commission of Canada. Our review of appointments made by the Corporation indicated that in the case of many appointments to senior positions, initial or starting salaries had been paid at rates higher than the established minimum rates, and in certain cases the maximum rates had been paid immediately on appointment at some of the most senior levels. In a number of instances promotions had been given in 1963 to senior officers

within six months of their appointments, and a large number of officers in receipt of salaries of \$10,000 per annum or more had received increases in 1964 ranging from 10% to 50%, the increases in three cases being over 51% with one as high as 92%.

In the meeting referred to, the joint auditors expressed to the Board the hope that action might be taken toward eliminating or otherwise reducing the costs involved in the above described practices. The Deputy Commissioner General and the General Manager furnished reasons to the meeting why in their opinion the practices in question had been and continued to be justifiable, citing the exceptional circumstances under which the Corporation had been organized and is operating today.

Several members of the Board pointed out that as most of the senior posts had been filled, costs of relocating new personnel as well as most of the major salary adjustments were now completed. The view was expressed, however, that there should be no barrier to prevent any changes being made in the practices criticized, and assurance was given by the members of the Board that greater vigilance would be exercised in checking such practices and their costs in future.

190. *Canadian National (West Indies) Steamships, Limited.* The active operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1964 amounted to \$542,000, represented by cash, \$86,000, and balance due under agreement of sale of vessels, \$470,000, less liability in respect of unclaimed matured bonds of \$14,000. During the year the Company received \$48,000 in war claims, earned bank interest of \$1,200 and expended \$1,600 on legal expenses.

The balance due under agreement of sale of vessels represented the final instalment, due August 19, 1963, under terms of letter of credit confirmed by the Bank of America. Payment has continued to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963, despite efforts of management to obtain release of the funds.

191. *Canadian Overseas Telecommunication Corporation.* The objects of this Corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, R.S., c. 42, are to establish, maintain and operate external telecommunication services generally, and to co-ordinate Canada's external telecommunication services with those of other nations. To these ends the Corporation, in 1950, acquired the Canadian external telecommunication facilities of Cable and Wireless Limited and Canadian Marconi Company Limited, which provided cable and radio-telegraph circuits between Canada and Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services to Britain and the West Indies. Since 1950 the Corporation has developed or participated with Commonwealth partners and other nations in the development of major extensions of and additions to the Canadian international telecommunication facilities and systems. In line with this policy, the Commonwealth Pacific Cable System, a multi-channel, multi-purpose cable between Canada and New Zealand and Australia,

was completed in December 1963 and an extension thereof into South-East Asia linking points at New Guinea, Guam, Hong Kong, Sabah and Singapore is expected to be completed and become fully operative by the beginning of 1967. The Corporation made its initial capital contribution in 1964-65 as a participant in the establishment of a global commercial communications satellite system.

The equity of the Crown in the Corporation amounted to \$67,593,000 at March 31, 1965, an increase of \$1,814,000 over the equity at the end of the previous year, and consisted of advances of \$55,054,000 for capital purposes and a surplus of \$12,539,000.

The capital requirements of the Corporation are financed in part by loans provided by parliamentary appropriations, with the balance provided out of accumulated earnings. The Corporation repaid \$2,408,000 on advances received in previous years and in March 1965 received a further \$2,000,000 for capital purposes. Capital additions amounted to \$6,483,000. At March 31, 1965 the estimated cost of completing approved capital projects was \$30,930,000 of which \$18,700,000 relates to the year ending March 31, 1966.

The following is a summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1965	1964
Income—		
Telephone, telegraph, telex, circuit rentals, etc.....	\$ 15,355,000	\$ 14,278,000
Expense—		
Salaries, wages and employee benefits.....	3,613,000	3,105,000
Depreciation.....	4,016,000	2,855,000
Rental of circuits, etc.....	1,894,000	1,996,000
Interest.....	2,604,000	1,687,000
Operation, maintenance and repairs—buildings, plant and equipment.....	1,832,000	1,126,000
Other.....	673,000	575,000
	14,632,000	11,344,000
Less: Estimated amount recoverable from Commonwealth Network.....	3,699,000	1,817,000
	10,933,000	9,527,000
Profit before income tax.....	4,422,000	4,751,000
Provision for income tax.....	2,201,000	2,365,000
Net profit.....	\$ 2,221,000	\$ 2,386,000

Income increased by \$1,077,000 or approximately 8% over that of the previous year, compared with an increase of 16% recorded last year. The increased revenue included increases in telephone, telegraph and telex revenue of approximately \$2,220,000 offset in part by a substantial drop in circuit rental revenue as a result of the completion by other operators of alternative trans-Atlantic cables. Expenses increased by \$3,288,000 or 29% over the previous year, due largely to considerably higher interest charges against



operations together with the cost of operating and maintaining substantial newly-completed plant and equipment. There was a consequent increase in the estimated amount recoverable from the Commonwealth Network of \$1,882,000.

In the course of our examination we drew the attention of management to a number of progress payments totalling \$1,745,000 for the Corporation's share of capital expenditures incurred by partners relating to one of the major cable projects. These were individually in excess of \$50,000 and did not have the approval of the Governor in Council as is required by section 8 of the Canadian Overseas Telecommunication Corporation Act, although the Corporation had been notified by the Department of Transport that the total estimated cost of the project concerned had received Cabinet approval. It was also noted that disbursements of \$343,000 for the leasing of additional circuits as a result of emergency conditions caused by cable breaks had not been approved by the Governor in Council. We were informed that the Corporation is presently seeking this approval.

192. *Canadian Patents and Development Limited.* Section 17 of the Research Council Act, R.S., c.239, provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, R.S., c. 53, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the Company, which is located at Ottawa, are available to government departments, publicly supported institutions and universities.

At March 31, 1965 the Crown's equity in the Company was \$1,186,000, comprising capital stock of \$296,000 and surplus of \$890,000.

The following summary shows the results of the Company's operations for the year ended March 31, 1965 compared with the preceding year:

	Year ended March 31	
	1965	1964
Income—		
Royalties, licensing fees, etc.....	\$ 397,000	\$ 376,000
Less: Costs of licensing rights and related technical assistance, etc.....	35,000	25,000
	362,000	351,000
Other income.....	49,000	41,000
	411,000	392,000
Expense—		
Promotion and development.....	50,000	103,000
Services provided by National Research Council.....	48,000	42,000
Patent attorneys' fees and other patenting costs.....	44,000	38,000
Salaries.....	31,000	29,000
Awards to inventors.....	17,000	15,000
Other expenses.....	4,000	16,000
	194,000	243,000
Net profit.....	\$ 217,000	\$ 149,000

The increased income from royalties, licensing fees, etc., is largely attributable to four inventions, while there was a substantial reduction in royalties received on one other invention. The increase in the cost of licensing rights and related technical assistance, etc., was mainly due to an increase in royalties payable under an agreement with a university.

The decrease in the cost of promotion and development is mainly attributable to the completion of a large development contract, with no contract comparable in size being entered into during the year. Outstanding commitments on development contracts amounted to approximately \$25,000 at March 31, 1965.

The increased cost of patent attorneys' fees and other patenting costs resulted from a general growth of activities related to the procurement of patents. The decrease in other expenses is chiefly accounted for by a substantial drop in legal fees and travel expenses.

193. *Centennial Commission.* The Centennial Commission was established by the Centennial of Canadian Confederation Act, 1960-61, c.60, as amended by 1963, c.36, to promote interest in, and to plan and implement programs and projects relating to the Centennial of Confederation in Canada. The Commission, with its head office in Ottawa, consists of a Commissioner, an Associate Commissioner and twelve Directors, all appointed by the Governor in Council.

The following is a comparative summary of expenses for the past two years and cumulative figures since the establishment of the Commission:

	Year ended March 31		Cumulative from September 29, 1961
	1965	1964	
Programs and projects of national significance.\$	2,439,000	\$ 1,495,000	\$ 4,208,000
Grants to provinces for approved projects of lasting nature.....	976,000		976,000
Administrative expenses:			
Salaries and employee benefits.....	494,000	272,000	774,000
Professional and special services.....	90,000	45,000	135,000
Travel.....	70,000	34,000	106,000
Informational programs and publications....	67,000	8,000	75,000
Accommodation.....	37,000	25,000	62,000
Other.....	104,000	64,000	180,000
	<u>862,000</u>	<u>448,000</u>	<u>1,332,000</u>
Total expense.....\$	<u>4,277,000</u>	<u>\$ 1,943,000</u>	<u>\$ 6,516,000</u>

Expenditures of \$2,439,000 on programs and projects of national significance were provided for by a parliamentary appropriation. These expenditures include \$863,000 paid to the Fathers of Confederation Memorial Citizens Foundation as the federal Government's 1964-65 contribution toward the construction of the Fathers of Confederation Memorial Building at Charlottetown, P.E.I. The Centennial Commission and various provincial governments are sharing the cost of this building equally, with the contribution of the

Commission limited to \$2,800,000. To March 31, 1965 the Commission's contributions to this project totalled \$2,419,000. Outlays to March 31, 1965 also included preliminary and excavation costs of \$708,000 for the Canadian Centre for Performing Arts in Ottawa (now National Arts Centre).

Section 10 of the Act directs that there shall be a special account in the Consolidated Revenue Fund to be known as the Centennial of Confederation Fund, to which shall be credited amounts appropriated by Parliament for purposes of the Fund. At the end of the previous year a balance of \$3,000,000 was held by the Minister of Finance at the credit of the Fund and was available for grants to the provinces for approved projects of a lasting nature. During the year \$4,000,000 was added to the Fund and grants aggregating \$976,000 were made to the provinces. A balance of \$6,024,000 remained in the Fund on March 31, 1965.

Administrative expenses were provided for to the extent of \$819,000 by a parliamentary appropriation, and accommodation and accounting services having an estimated cost of \$43,000 were provided without charge by departments of the Government of Canada.

194. *Cornwall International Bridge Company Limited.* The shares of this Company are owned equally by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation).

The Company has been in process of winding up since July 3, 1962, when it ceased to operate the toll bridge system across the St. Lawrence River between Cornwall, Ontario, and Rooseveltown, New York. The toll bridge system is now operated by The Seaway International Bridge Corporation, Ltd., a subsidiary of The St. Lawrence Seaway Authority.

The equity of the Seaway entities in the Company at September 30, 1964 consisted of capital stock of \$50,000 less a deficit of \$9,000.

During the year ended September 30, 1964, the Company transferred free of charge to the Town of Massena, New York, a bridge over the Racquette River, a road serving the bridge, and land for the road allowance. The remaining parcels of land owned by the Company have been offered for sale.

195. *Crown Assets Disposal Corporation.* This Corporation, originally established as the War Assets Corporation in 1944 by the Surplus Crown Assets Act, R.S., c. 260, received its present name by a 1949 amendment to that Act. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all Government departments and most of the Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The head office of the Corporation is in Ottawa, with sales offices in a number of cities across Canada.

As has been the case for a number of years, the Corporation was authorized for the 1964-65 year to retain 4% of the net proceeds of sales of lands and buildings and of interest on long-term sales agreements and 10% of the net proceeds of all other sales to meet its



administrative and other expenses. A summary of the Corporation's income and expense for the year together with comparable figures for the preceding year follows:

	Year ended March 31	
	1965	1964
Income—		
Portion retainable by the Corporation from net sales and other income earned.....	\$ 1,349,000	\$ 832,000
Expense—		
Salaries.....	496,000	453,000
Rent.....	55,000	55,000
Employees' welfare benefits .....	48,000	43,000
Printing, stationery and office supplies.....	31,000	24,000
Telephone, telegraph and postage.....	27,000	23,000
Net depreciated cost at March 31, 1964 of office furniture and equipment, etc., written off.....	21,000	—
Legal and advertising.....	15,000	5,000
Travel.....	14,000	15,000
Office furniture and equipment purchased during year.....	12,000	—
Provision for depreciation of capital assets.....	—	5,000
Other expenses.....	2,000	1,000
	<u>721,000</u>	<u>624,000</u>
Excess of income over expense.....	<u>\$ 628,000</u>	<u>\$ 208,000</u>

The \$517,000 increase in income was due to a larger volume of sales, resulting mainly from reductions in the defence programs, from the net proceeds of which the Corporation retains the authorized percentages referred to above. A major part of the \$97,000 increase in expense resulted from salary increases retroactive to October 1, 1963, a staff increase related to the increased volume of sales, the write-off of the net depreciated cost of capital assets, and the cost of office furniture and equipment purchased during the year which was charged to expense instead of being capitalized as in former years. The cost of future acquisitions of office furniture and equipment will be charged as an expense of the year in which the expenditure is incurred.

Pursuant to section 81(3) of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959, and from time to time thereafter but at intervals of not longer than six months, all of its surplus in excess of \$100,000. The \$628,000 excess of income over expense for the year was, in consequence, paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown in the Corporation's Agency Account at March 31, 1965 was \$5,538,000, compared with \$5,197,000 at the end of the preceding year, and was largely represented by amounts totalling \$4,789,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31	
	1965	1964
Sales made on behalf of—		
Government of Canada.....	\$ 16,101,000	\$ 10,194,000
Other principals.....	958,000	822,000
Interest.....	208,000	223,000
	<hr/> 17,267,000	<hr/> 11,239,000
Less: Direct costs relating to sales.....	52,000	42,000
	<hr/> 17,215,000	<hr/> 11,197,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned.....	1,348,000	832,000
Remittances to the Receiver General.....	14,666,000	10,314,000
Other remittances.....	979,000	642,000
	<hr/> 16,993,000	<hr/> 11,788,000
Increase (decrease) in equity:		
Government of Canada.....	341,000	(687,000)
Other principals.....	(119,000)	96,000
	<hr/> \$ 222,000	<hr/> \$ (591,000)

Sales increased by \$6,043,000 due primarily to the increase in the number of sales involving substantial amounts which resulted from the disposal of defence installations, including land, buildings, equipment, as well as ships and other assets.

In its Seventh Report 1964 the Public Accounts Committee recommended that the sales and inspection procedures of the Corporation be revised with a view to improving sales techniques. In February 1965 the Minister of Industry advised us that steps had been taken by the Corporation to revise and upgrade its operating instructions in the area of pre-sales analysis and inspection. He also stated that the Corporation proposed to undertake a more aggressive sales campaign in such areas as market research and analysis, the development of new methods of improving its solicitation lists, and the exploring of ways and means of interesting new and substantial merchandising outlets.

196. *Defence Construction (1951) Limited*. This Crown-owned agency was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, R.S., c. 62. The Company is responsible for awarding and supervising contracts for defence construction projects. Funds to finance the projects are provided by the departments concerned, or by the United States Government for projects undertaken on its behalf. Expenditures on defence construction projects which were approved by the Company for payment by the Department of National Defence and by the United States Government increased by \$3.2 million from \$29.3 million in 1963-64 to

\$32.5 million in 1964-65. The increase in expenditure reflects to a great extent the high proportion of the year's work devoted to airfield runway and taxiway projects, which can be completed more quickly than work on other construction projects of the same dollar value.

Funds to cover the Company's operating expenses are provided annually by an appropriation of the Department of Defence Production. During the year, in order to show the full extent of the Company's operations, expenditures made on a recoverable basis were charged to the various expense classifications, instead of being recorded only as accounts receivable as in prior years and the amounts recovered or recoverable were shown as income. The figures for the preceding year were adjusted accordingly and are shown in comparison with the operating results for the year in the following summary:

	Year ended March 31	
	1965	1964
Expense—		
Salaries and living allowances.....	\$ 3,035,000	\$ 2,452,000
Employee welfare benefits.....	219,000	178,000
Travel and removal.....	160,000	188,000
Other expenses.....	328,000	315,000
	<u>3,742,000</u>	<u>3,133,000</u>
Income—		
Reimbursement for engineering and administrative services....	1,540,000	622,000
Other income.....	2,000	1,000
	<u>1,542,000</u>	<u>623,000</u>
Net expense.....	<u>\$ 2,200,000</u>	<u>\$ 2,510,000</u>

The increase in income and expense is the result of an increase in the volume of work on special projects performed on a recoverable basis for government departments and agencies. It will be noted, however, that the increase in expense was \$310,000 less than the increase in income. This is more than accounted for by a decrease during the year of \$324,000 in salaries and related costs due to a reduction in the number of employees engaged on the Company's regular work.

197. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Companies Act and is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Operating from headquarters in Edmonton, it provides air transportation services almost entirely to its parent company and Northern Transportation Company Limited, which is also a subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1964 comprised capital stock of \$28,000 and surplus of \$228,000.



The following is a comparative summary of the net expenses of the Company for the past two years:

	Year ended December 31	
	1964	1963
Salaries, wages and contributions to employees' pension plan . . . . .	\$ 231,000	\$ 187,000
Repairs . . . . .	173,000	167,000
Supplies . . . . .	150,000	153,000
Depreciation . . . . .	62,000	49,000
Hangar expense . . . . .	53,000	44,000
Insurance . . . . .	36,000	35,000
Other . . . . .	35,000	41,000
Total expenses . . . . .	740,000	676,000
Less: Miscellaneous income . . . . .	23,000	5,000
Net expenses . . . . .	\$ 717,000	\$ 671,000

The net expenses for 1964 were recovered from Eldorado Mining and Refining Limited to the extent of \$544,000 and from Northern Transportation Company Limited to the extent of \$173,000.

198. *Eldorado Mining and Refining Limited.* This Company was incorporated in 1945 under the Companies Act, 1934, following expropriation in 1944 of the shares of a privately-owned company. The head office of the Company is in Ottawa, the Beaverlodge mine is near Uranium City, Saskatchewan, and the refinery and administrative offices are in Port Hope, Ontario. The principal functions of the Company are to produce, refine and sell uranium and allied products.

The equity of the Crown in the Company at December 31, 1964 amounted to \$52,001,000 consisting of capital stock of \$6,586,000 and surplus of \$45,415,000. Dividends of \$1,500,000 were paid to the Receiver General during the year, compared with \$2,000,000 paid in the preceding year.

In 1962 the Company contracted to sell to the United Kingdom Atomic Energy Authority 24,000,000 pounds of uranium concentrates between the years 1962 and 1971. At the same time, the Company contracted to purchase 20,917,000 pounds of uranium concentrates from six producers. The balance of 3,083,000 pounds is to be supplied from the Company's own mine. The contract provides for the deferment of payment for certain deliveries until the later years of the contract period. At December 31, 1964 an amount of \$7,040,000 was due in fixed monthly instalments ending March 31, 1966 while \$25,422,000 is recoverable in equal annual instalments during the years 1971-73.

All costs and expenses in connection with the procurement of concentrates from other producers are recovered and, in addition, charges are made by the Company for administering and financing the program. At December 31, 1963 the excess of costs and expenses over sales of concentrates, procured from other producers, amounted to \$2,990,000. During 1964 sales exceeded costs and expenses by \$2,748,000 leaving a balance of \$242,000 to be recovered in 1965.

During 1963 the Governor in Council granted authority for entry into contracts between Her Majesty the Queen in right of Canada, represented by Eldorado Mining and Refining Limited, and certain Canadian uranium producers for the purchase of uranium concentrates for stockpiling. At December 31, 1964 the Company was the custodian of uranium concentrates thus acquired at a total cost of \$24,408,000. Funds for the acquisition of these concentrates were provided by appropriations of the Department of Trade and Commerce and accordingly their cost was not included in the accounts of the Company.

The following is a summary of income and expense for 1964, in comparison with the preceding year:

	Year ended December 31	
	1964	1963
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services.....	\$ 15,690,000	\$ 24,281,000
Expense—		
Mining, milling, refining and other expenses.....	5,690,000	11,694,000
Depreciation.....	4,103,000	4,162,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer.....	3,121,000	3,468,000
Amortization of pre-production, mine development and other deferred expenditures.....	410,000	807,000
Scientific research.....	1,180,000	936,000
	<u>14,504,000</u>	<u>21,067,000</u>
Net income from operations.....	1,186,000	3,214,000
Income arising from the financing of ore procurement program.....	2,974,000	1,255,000
Interest and other non-operating income (net).....	690,000	1,214,000
	<u>4,850,000</u>	<u>5,683,000</u>
Provision for income tax.....	2,400,000	2,900,000
Net income.....	<u>\$ 2,450,000</u>	<u>\$ 2,783,000</u>

The continuing downward trend in sales volume and the adverse effect of the deferment of deliveries under the terms of certain contracts have resulted in a decline of \$8,591,000 in sales revenue.

Included in the mining, milling, refining and other expenses is the write-off of obsolete and slow-moving stores at Beaverlodge in the amount of \$202,000, making a total of \$1,030,000 written off since 1960.

In 1960 the Company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. This cost has been amortized on a pro-rata basis against the production of the Beaverlodge mine and the balance of \$3,121,000 at January 1, 1964 was written off during the year.

Under the provisions of the contract for the delivery of 24,000,000 pounds of uranium concentrates to the United Kingdom Atomic Energy Authority, the Company delivered 7,259,000 pounds during 1964 at an excess of selling price over average cost of \$3,012,000. After allowance for administrative costs of \$38,000, a balance of \$2,974,000 remained as income arising from the financing of the ore procurement program.

199. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c.105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation, which has its head office in Ottawa and branches in Montreal and Toronto, is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, it may seek the approval of the Governor in Council, pursuant to section 21 of the Act, to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. An amendment to the Act in 1959 introduced section 21A under which the Corporation may, with the authority of the Governor in Council, provide long-term financing for export sales of capital goods and services with funds available out of the Consolidated Revenue Fund.

The Crown's equity in the Corporation at December 31, 1964 was \$92,597,000 consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, and an underwriting reserve of \$9,719,000, together with advances and accrued interest totalling \$72,878,000 in respect of long-term financing of sales agreements under section 21A of the Act.

Export sales insured by the Corporation on its own account during 1964 totalled \$131,000,000 on which premiums of \$761,000 were earned. Export sales insured under section 21 of the Act totalled \$215,000,000 and premiums amounted to \$1,762,000 of which \$1,322,000 was remitted to the Receiver General and \$440,000 was retained by the Corporation in respect of expenses and overhead, in accordance with a basis authorized by the Minister of Trade and Commerce. At December 31, 1964 the liability of the Corporation under contracts of insurance issued and outstanding totalled \$420,725,000 of which \$311,497,000 was for contracts entered into under section 21 of the Act.

At December 31, 1964, after four years of operation in the field of direct long-term financing of export sales of capital goods and services under the authority of section 21A of the Act, the Corporation had signed agreements to finance export sales amounting to \$212,000,000 of which \$124,000,000 had been disbursed. In addition, the Corporation had agreed to finance \$27,000,000 of prospective sales and had guaranteed or had undertaken to guarantee negotiable instruments totalling \$13,276,000 with respect to completed sales. During the year the Corporation sold additional promissory notes having a face value of \$23,000,000 which were outstanding under section 21A, to the Export Finance Corporation of Canada, Ltd. (a subsidiary of the Canadian chartered banks). The Corporation continues to be responsible for the administration of notes amounting to \$46,720,000 sold in this manner which mature within five years, and guarantees payment of principal and interest.



The following is a comparative summary of operations for the past two years:

	Year ended December 31	
	1964	1963
Income—		
Premiums and fees earned.....	\$ 1,287,000	\$ 1,003,000
Expense—		
Salaries and employee benefits.....	438,000	381,000
Rents.....	39,000	36,000
Stationery, printing and office expenses.....	28,000	29,000
Travel.....	29,000	25,000
Communications expense.....	18,000	16,000
Other.....	46,000	31,000
	598,000	518,000
	689,000	485,000
Policyholders' claims—		
Recoveries.....	655,000	597,000
Payments.....	515,000	195,000
	140,000	402,000
Excess of income and net recovery on policyholders' claims over expense.....	829,000	887,000
Add: Interest on investments.....	636,000	774,000
	1,465,000	1,661,000
Deduct: Provision for income tax.....	—	796,000
Surplus.....	\$ 1,465,000	\$ 865,000

The increase of \$80,000 in expense for the year resulted mainly from an increase of \$57,000 in salaries, of which approximately \$21,000 was for additional staff taken on in 1963 and 1964 and \$36,000 was for salary increases.

The following is a summary of transactions in respect of claims paid to policyholders:

Type of claim	Outstanding Jan. 1, 1964	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1964
Insolvency.....	\$ 264,000	\$ 36,000	\$ 27,000	\$ 20,000	\$ 253,000
Default.....	260,000	53,000	22,000	37,000	254,000
Exchange transfer.....	494,000	426,000	606,000	(45,000)	359,000
Other.....	1,000	—	—	—	1,000
	\$ 1,019,000	\$ 515,000	\$ 655,000	\$ 12,000	\$ 867,000

Of the amount of \$867,000 shown above as outstanding at December 31, 1964, the Corporation anticipates making substantial recoveries, particularly in respect of those

claims, amounting to \$359,000, which were paid because of exchange transfer difficulties in the buyers' countries. The amounts to be recovered will be added to income in the years in which recoveries are effected.

Following an amendment to the Export Credits Insurance Act in 1964, which exempted the Corporation from the payment of income tax, the Corporation paid an amount of \$10 million into a special non-interest-bearing account in the name of the Corporation in the Consolidated Revenue Fund. This amount corresponds to the sum of the paid-in capital and the capital surplus of the Corporation.

In April 1965 a further \$3,976,000, corresponding to the net interest earned through the investment of funds equivalent to the paid-in capital and the capital surplus of the Corporation, was deposited in the same account. The Corporation also undertook, beginning with the year 1965, to pay to the Receiver General the excess, if any, of premiums retained in respect of policies written under section 21 of the Act and of interest retained on section 21A long-term financing operations, over the calculated administrative costs and overhead attributable to these operations.

In our report under section 87 of the Financial Administration Act on the examination of the accounts of the Corporation for the year ended December 31, 1964, reference was made to the decision of the Board of Directors to transfer the total of the Corporation's Earned Surplus account, together with the excess of income over expense for the year ended December 31, 1964, to the Underwriting Reserve and to show the Reserve on the balance sheet of the Corporation as a liability reserve. We stated that, in our opinion, this Reserve is general in nature and at December 31, 1964 constituted part of the shareholders' equity in the Corporation and should have been included in the capital or shareholders' equity section of the balance sheet.

We have been informed by the Corporation that further consideration will be given to this matter.

200. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Machinery Syndicates Credit Act, 1964, c. 29, which authorizes the making of loans to qualified syndicates of three or more farmers to purchase farm machinery for their co-operative use. The head office of the Corporation is in Ottawa and there are 7 branch and 126 field offices throughout Canada.

The Government of Canada paid a further \$3,650,000 into the capital of the Corporation during the year and advanced an additional \$98,818,000 (net) by way of loans. At March 31, 1965 the equity of the Government in the Corporation amounted to \$456,061,000, comprising: capital, \$17,000,000; loans, \$424,341,000 (of which \$105,000 was in respect of the Farm Machinery Syndicates Credit Act); accrued interest on loans, \$13,075,000; reserve for losses under the Farm Credit Act, \$1,644,000; and retained earnings from operations of the Farm Machinery Syndicates Credit Act, \$1,000.

During the year, 9,845 loans were made to farmers to a total of \$139,751,000 compared with 7,802 loans amounting to \$96,316,000 made in the previous year. Repayments of

principal amounted to \$37,359,000, an increase of \$11,933,000 over repayments in the previous year. Loans outstanding at March 31, 1965, with accrued interest, amounted to \$455,905,000 compared with \$350,357,000 at March 31, 1964. At the year-end \$54,000 had been loaned under the Farm Machinery Syndicates Credit Act, which came into force on December 11, 1964.

The following is a comparative summary of the income and expense of the Corporation for the last two years:

	Year ended March 31	
	1965	1964
<u>Operations under the Farm Credit Act</u>		
Income—		
Interest earnings.....	\$ 19,786,000	\$ 15,120,000
Deduct: Interest on loans from the Government of Canada....	17,169,000	13,188,000
	<u>2,617,000</u>	<u>1,932,000</u>
Appraisal, supervision and legal fees.....	828,000	521,000
	<u>3,445,000</u>	<u>2,453,000</u>
Expense—		
Salaries and employee benefits.....	3,116,000	2,764,000
Travel.....	327,000	310,000
Office accommodation.....	222,000	217,000
Postage, express, telephone and telegraph.....	94,000	84,000
Printing, stationery and office supplies.....	93,000	72,000
Rental and maintenance of office equipment.....	55,000	27,000
Fees and expenses of part-time appraisers.....	15,000	18,000
Management consultants' fees.....	12,000	16,000
Depreciation.....	36,000	36,000
Other.....	55,000	28,000
	<u>4,025,000</u>	<u>3,572,000</u>
Less: Portion allocated to operations under the Farm Machinery Syndicates Credit Act.....	50,000	—
	<u>3,975,000</u>	<u>3,572,000</u>
Net operating loss, provided for by parliamentary appropriation..	\$ 530,000	\$ 1,119,000

Operations under the Farm Machinery Syndicates Credit Act

for the period December 11, 1964 to March 31, 1965

Income—	
Interest (net) and service charges.....	\$ 1,000
Amount appropriated by Parliament for carrying out the purposes of this Act.....	50,000
	<u>51,000</u>
Portion of Corporation's expenses allocated to operations under this Act..	50,000
	<u>50,000</u>
Excess of income over expense transferred to retained earnings.....	\$ 1,000

The increase of \$403,000 in expense for the year was due largely to the continued growth in lending activity and the consequent expansion of the Corporation which



resulted in an increase in staff from 183 at March 31, 1960 to 498 at March 31, 1964 and 529 at March 31, 1965. During the same period the number and principal of loans outstanding increased from 28,000 and \$117,000,000 to 47,000 and \$444,000,000.

In our report under section 87 of the Financial Administration Act on the examination of the accounts of the Corporation for the year ended March 31, 1965, reference was made to the reduction in the Reserve for Losses during the past five years, due in part to the statutory obligation placed on the Corporation to lend money at a fixed rate, as follows:

Section 15 of the Farm Credit Act requires the Corporation to establish a Reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this Reserve until the amount of the Reserve equals the capital of the Corporation. At March 31, 1965 the capital of the Corporation amounted to \$17,000,000 while the Reserve amounted to \$1,644,527, having been reduced by \$20,813 due to losses on loans realized during the past year.

As previously pointed out, the statutory lending rate of 5% on loans to farmers has not provided sufficient income to cover the interest paid on borrowings from the Government of Canada and administrative expenses applicable to loans made at this rate. The annual excess of expense over income is now being met each year by parliamentary appropriation. The operating loss of \$529,694 for the year ended March 31, 1965, compared with a loss of \$1,118,796 for the previous year, was recovered from Department of Agriculture Vote 90d.

While continuation of the policy of providing a parliamentary appropriation to cover the annual operating loss of the Corporation will prevent further depletion of the Reserve by such losses, no provision has been made for the building up of the Reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

The amendment to the Farm Credit Act which was assented to on June 18, 1964 increased the amount that a single farming enterprise may borrow under Part II of the Act from \$20,000 to \$40,000 and under Part III of the Act from \$27,500 to \$55,000. The interest rate of 5% per annum remains unchanged on amounts loaned by the Corporation up to the previously existing limits of \$20,000 and \$27,500, but the interest rate to be charged on moneys loaned in excess of these amounts may from time to time be prescribed by the Corporation with the approval of the Governor in Council "which rate shall be sufficient, if the whole amount of the loan were to be loaned by the Corporation at that rate, to return to the Corporation an amount equal to the cost to the Corporation of any money borrowed for the purposes of the loan and the expenses of the Corporation in respect thereof, including a reasonable reserve against loss".

On June 25, 1964 an interest rate of  $6\frac{3}{8}\%$  per annum was approved for moneys loaned under the new increased limits. Since this rate applies only to the portion of any loan in excess of \$20,000 or \$27,500, as the case may be, the operations of the Corporation will continue to result in an annual operating loss.

201. *The National Battlefields Commission.* This Commission, which was constituted by the National Battlefields at Quebec Act, 1908, c. 57, with the objects of acquiring and preserving the historic battlefields at Quebec, comprises nine members, seven of whom are appointed by the Governor in Council and one each by the governments of the provinces of Ontario and Quebec.

Prior to 1958 the Commission was financed by statutory grants made from time to time under the constituting Act, but since then it has been financed by annual parliamentary appropriations. At March 31, 1965 the proprietary equity of the Crown in the Commission amounted to \$1,504,000.

The following is a summary of the expenses of the Commission for the year compared with those of the preceding year:

	Year ended March 31	
	1965	1964
Salaries, wages and related expenses.....	\$ 164,000	\$ 154,000
Policing services.....	31,000	20,000
Repairs of roads, driveways and buildings.....	25,000	18,000
Light, heat, power, gasoline and oil.....	15,000	11,000
Operating supplies and nursery stock.....	16,000	9,000
Other expenses.....	9,000	7,000
	<u>260,000</u>	<u>219,000</u>
Reconstruction of Martello Tower No. 4.....	42,000	—
Capital outlays.....	25,000	19,000
	<u>\$ 327,000</u>	<u>\$ 238,000</u>

The expenses of the Commission were financed to the extent of \$315,000 by parliamentary appropriations, based on the approved budget of the Commission for the fiscal year 1964-65, \$2,000 from miscellaneous income, and the balance of \$10,000 by increasing outstanding current obligations.

In the approved budget it was stipulated that expenditure in respect of each item detailed therein might exceed the amount allotted by 10% without further approval, provided that the total expenditure did not exceed \$315,000. The accounts of the Commission showed that expenditure in respect of four of the items in the budget exceeded the limit prescribed by more than 10% in each case, and that the total expense for the year, which amounted to \$327,000, exceeded the budget total by \$12,000.

Funds contributed by provincial governments and others in the years following the establishment of the Commission in 1908, which may be used only for the acquisition of land with prior parliamentary approval, amounted to \$32,000 at March 31, 1965. The only changes in the balance of this account for many years have been the increases arising out of investment earnings.

The Balance Sheet of the Commission as at March 31, 1965 has not been approved by the Chairman as in previous years. The Chairman, who has since resigned, advised us by letter on June 18, 1965 that he was withholding his signature because he disapproved of the year's deficit.

202. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission, including loans, at March 31, 1965 totalled \$115,266,000 represented by: cash, \$1,259,000; inventories of tools, equipment and supplies, \$204,000; and cost of capital assets, \$113,803,000.

The Commission's activities are financed by annual parliamentary appropriations, withdrawals from the National Capital Fund and loans from the Government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1965	1964
Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull, maintenance of other properties and general administration		
Expenditures.....	\$ 3,628,000	\$ 2,892,000
Provided for by:		
Parliamentary appropriations.....	\$ 3,390,000	\$ 2,668,000
Revenue.....	238,000	224,000
	<u>\$ 3,628,000</u>	<u>\$ 2,892,000</u>
National Capital Fund transactions		
Balance of Fund in hands of Commission at beginning of year...	\$ 986,000	\$ —
Amount due from National Capital Fund at beginning of year...	—	(258,000)
Add:		
Amounts drawn from Fund.....	10,500,000	7,850,000
Proceeds from sales of property.....	425,000	177,000
	<u>11,911,000</u>	<u>7,769,000</u>
Deduct:		
Capital outlays for parks, parkways, railway lines and structures, etc.....	7,181,000	3,960,000
Repayment of loans to acquire property now in use—Queensway (1964—Ottawa River Parkway).....	2,529,000	61,000
Maintenance of land and rehabilitation works.....	112,000	90,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges, sewers, etc...	339,000	2,672,000
	<u>10,161,000</u>	<u>6,783,000</u>
Balance of Fund in hands of Commission at end of year.....	<u>\$ 1,750,000</u>	<u>\$ 986,000</u>



	Year ended March 31	
	1965	1964
<u>Acquisition of property in the National Capital Region through loans provided by the Government of Canada</u>		
Unexpended balance of loans at beginning of year.....\$	383,000	\$ 1,230,000
Add:		
Government of Canada loans (net).....	6,865,000	12,081,000
Amount recovered from the National Capital Fund with respect to properties put into use.....	2,529,000	61,000
Proceeds from sales of property.....	1,906,000	58,000
	11,683,000	13,430,000
Deduct:		
Expenditures for acquisition of property.....	10,424,000	13,047,000
Unexpended balance of loans at end of year.....\$	<u>1,259,000</u>	<u>\$ 383,000</u>
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans.....\$	<u>2,858,000</u>	<u>\$ 2,319,000</u>
Provided for by:		
Parliamentary appropriations.....\$	2,464,000	\$ 1,990,000
Net revenue from rentals of property and interest earnings....	394,000	329,000
	<u>\$ 2,858,000</u>	<u>\$ 2,319,000</u>

The expenditures incurred in the various activities of the Commission, as summarized above, totalled \$27,071,000 during the year compared with \$25,041,000 in the preceding year and were financed as follows:

	Year ended March 31	
	1965	1964
Parliamentary appropriations.....\$	15,590,000	\$ 11,264,000
Loans to the Commission.....	10,424,000	13,047,000
Proceeds from sales of property.....	425,000	177,000
Revenues of the Commission.....	632,000	553,000
	<u>\$ 27,071,000</u>	<u>\$ 25,041,000</u>

The Public Accounts Committee gave further consideration to the practice of requiring the National Capital Commission to seek parliamentary appropriations to enable it to pay interest on loans obtained from the Minister of Finance for the purchase of properties. In its Sixth Report 1964 (see Appendix 1, item 27) the Committee again requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. Loans from the Minister of Finance totalled \$59,851,000 at March 31, 1965. Interest charges in 1964-65 amounted to \$2,858,000 of which \$2,464,000 was provided by Department of Public Works appropriations for the National Capital Commission, Votes 60 and 60d (see paragraph 167 of this Report).

203. *National Harbours Board.* This Board was established in 1936 by the National Harbours Board Act, R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1964 totalled \$493,406,000 comprising: equity represented by the cost of assets transferred to the Board on its establishment and subsequently, \$59,750,000; loans and advances, \$320,094,000; interest in arrears on loans and advances, \$86,204,000; and reserves, \$109,871,000; less the accumulated deficit of \$82,513,000.

During the year there was an increase of \$3,308,000 in outstanding loans and advances and \$7,645,000 in interest in arrears. In previous Reports we observed that there was little prospect of the Board being in a position to meet its principal and interest obligations and recommended the reconstitution of the financial structure of the Board. Since 1964, officers of the Board, along with officers of the Department of Finance, have been considering proposals with a view to eliminating the Board's indebtedness to the extent that loans and interest in arrears are considered to be in excess of the anticipated ability of the Board to repay.

Current assets of the Board included the sum of \$243,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for the easement for a 20-inch natural gas pipeline over the Jacques Cartier Bridge. The amount represents \$185,000 outstanding on December 31, 1963 plus \$58,000 charged for 1964. In previous Reports we have noted that authority for the installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate but that the Corporation subsequently would not agree to the rate proposed and requested the Board to consider one that was little more than nominal. The case was referred to the Department of Justice late in 1964.

The Jacques Cartier Bridge, until revocation of tolls on June 1, 1962, was operated under a tri-partite agreement which required the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operations of the Bridge to a maximum of \$150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness amounted to \$744,425. From 1950 until revocation of tolls the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. In our 1963 and 1964 Reports we observed that the settlement of this claim and the transfer of this Bridge to the Province had been the subject of negotiations between the Board and the Province. No further action has been taken on this matter.

Repeated reference has been made in previous Reports to the dispute between the Board and the Canadian Pacific Railway regarding the ownership of certain areas of Coal Harbour, Vancouver. Title to the areas involved has been in dispute since 1880 and, pending settlement, the C.P.R. collects rental and other revenue from certain areas in its possession while the Board does likewise in respect of certain areas which the Board has occupied.

At December 31, 1964 the Board held \$167,000 in trust while the C.P.R. held \$249,000. During the year, the Board again referred the case to the Attorney General of Canada and, at the year-end, was in the process of securing information requested by him.

The following is a summary of the operations of the harbours and elevators and of the bridges for the past two years:

	Year ended December 31	
	1964	1963
<u>Harbours and Elevators</u>		
Operating income—		
Harbours.....	\$ 4,597,000	\$ 3,237,000
Wharves and piers.....	10,474,000	9,690,000
Grain elevator systems.....	9,423,000	9,074,000
Cold storage systems.....	1,315,000	1,275,000
Permanent sheds.....	2,206,000	2,037,000
Railway systems.....	863,000	748,000
Miscellaneous services.....	1,224,000	1,227,000
	<u>30,102,000</u>	<u>27,288,000</u>
Operating and administrative expenses—		
Harbours.....	4,411,000	3,687,000
Wharves and piers.....	946,000	1,121,000
Grain elevator systems.....	6,349,000	6,010,000
Cold storage systems.....	1,144,000	1,130,000
Permanent sheds.....	1,438,000	1,382,000
Railway systems.....	1,063,000	1,087,000
Miscellaneous services.....	1,344,000	1,318,000
Administrative expenses.....	2,558,000	2,285,000
	<u>19,253,000</u>	<u>18,020,000</u>
Net operating income.....	10,849,000	9,268,000
Other income—		
Income from investments.....	2,491,000	2,307,000
Miscellaneous.....	338,000	147,000
	<u>13,678,000</u>	<u>11,722,000</u>
Special charges—		
Provision for interest on loans and advances.....	9,392,000	9,157,000
Provision for replacement of capital assets.....	4,803,000	4,519,000
Other.....	464,000	374,000
	<u>14,659,000</u>	<u>14,050,000</u>
Net loss.....	<u>\$ 981,000</u>	<u>\$ 2,328,000</u>



	Year ended December 31	
	1964	1963
<u>Bridges</u>		
Operating income—		
Jacques Cartier Bridge.....	\$ 159,000	\$ 152,000
Champlain Bridge.....	625,000	448,000
	<u>784,000</u>	<u>600,000</u>
Operating expenses—		
Jacques Cartier Bridge.....	294,000	255,000
Champlain Bridge.....	408,000	426,000
	<u>702,000</u>	<u>681,000</u>
Net operating income (loss).....	<u>82,000</u>	<u>( 81,000)</u>
Special charges—		
Provision for interest on loans and advances.....	1,620,000	1,521,000
Provision for replacement of capital assets.....	508,000	508,000
Settlement of claim by lessor of toll-collecting equipment....	279,000	—
Other.....	72,000	68,000
	<u>2,479,000</u>	<u>2,097,000</u>
Net loss.....	<u>\$ 2,397,000</u>	<u>\$ 2,178,000</u>

Tariff rates were increased during 1964 and waterborne cargo-tonnage surpassed that of 1963 by 8%. As a result, with the exception of the Prescott Elevator, revenue increased at all locations in 1964 over the preceding year. The increase in cargo-tonnage is mainly due to: increases in deliveries of wheat to Russia and China aggregating 2,259,000 tons; imports of crude oil which increased by 423,000 tons at Montreal and by 300,000 tons at Halifax; and motor vehicle imports from the United Kingdom, Germany and other countries which increased by 60% at Vancouver and 53% at Saint John.

In previous years the Prescott Elevator was used extensively for storing grains for short periods while awaiting arrival of ocean-going vessels in lower St. Lawrence River ports. This trans-shipment business has now almost disappeared with the completion of large storage elevators and modern loading facilities at Montreal, Sorel and Baie Comeau. As a result, the quantity of grains handled declined from 52,359,000 bushels in 1963 to 31,809,000 in 1964 which largely accounts for a decrease of \$145,000 in revenue from this elevator.

All tolls and charges in respect of passage of motor vehicles over the Jacques Cartier Bridge were revoked as of June 1, 1962. In 1964 there was, however, a small increase in the revenue derived from rentals and easements. Traffic across the Champlain Bridge in 1964 totalled 3,914,000 vehicles, an increase of 230,000 over 1963.

The increases in operating expenses were largely due to greater cargo-tonnage handled. In addition, certain expenditures were incurred during 1964 which had no counterpart in

1963. In Halifax, \$72,000 was spent on repairs to the grain gallery and on a special engineering survey of the port. In Quebec, \$30,000 was spent on major repairs to the grain elevator and the Canadian Corps of Commissionaires were retained to provide police service at a cost of \$24,000. In Montreal, police salaries were up \$29,000 and railway tracks were renewed at a cost of \$57,000. There was, however, a reduction of \$138,000 in railway maintenance at this port as a result of a reduction in the number of work gangs from three to two. In Vancouver, the roof of one storage shed and the walls of another were renewed and a street was repaved at a total cost of \$48,000.

The increase in administrative expenses was principally due to a general salary increase granted in 1964. In a number of classifications the new salary scales were made retroactive to October 1, 1963, following the pattern of the revised salary scales of the public service. In addition, the head office of the Board was moved to new quarters during 1964 which resulted in greater rental charges. Previously the Board shared space with the Department of Transport but was required to vacate due to additional needs of the Department.

Three items of expenditure merit observation. Under the terms of an agreement dated September 7, 1961, the Board leased certain automatic toll collecting equipment for use on the Jacques Cartier Bridge. The lease was for a period of five years at a daily rental of \$276. On June 1, 1962, nine months after the equipment was installed, all tolls applicable to the bridge were abolished by the Governor in Council. The toll collecting equipment was then removed and no further payments were made under the lease. The company that had installed the equipment claimed damages in excess of \$500,000 and was prepared to refer its claim to a court of law for adjudication. It was the opinion of the Board's legal advisers that the company's claim would not be sustained by the courts. However, the Board decided that the company should be compensated. The approval of the Governor in Council was then obtained for an *ex gratia* payment of \$279,000 in settlement of the company's claim.

*Ex gratia* payments totalling \$32,000 were made, with the approval of the Governor in Council, to owners of property adjacent to the Champlain Bridge due to land devaluation resulting from construction of the Bridge.

During the initial stages in the unloading of a grain vessel only mechanical devices are used. This period is referred to as "dip time" and not until one, two or three hours later—depending on the size of the vessel—are the services of riggers, rope pullers, scoopers and hold foremen required. We observed that the collective bargaining agreement between the Board and the labour unions at Port Colborne and Prescott provides for payment of these workers during dip time. During the year 120 vessels were unloaded at these locations and the workers were paid approximately \$20,000 during dip time for which the Board received no benefit.

204. *Northern Canada Power Commission.* This Commission, which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 42, consists of three members appointed by the Governor in Council and has its head office in Ottawa. The objects of the Commission are to construct and operate electric power

plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. Hydro-electric plants are operated at Snare River, N.W.T., and at Mayo River and Whitehorse Rapids, Y.T., and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson, Aklavik and Frobisher Bay, N.W.T., Field, B.C., and Moose Factory, Ontario. A hydro-electric power plant on the Taltson River, in the vicinity of Great Slave Lake, has been under construction since 1963.

The proprietary equity of the Government of Canada in the Commission, at the close of the past two fiscal years, follows:

	March 31	
	1965	1964
Advances, including \$50,000 for investigation of projects.....	\$ 28,142,000	\$ 22,463,000
Equity represented by cost of:		
Central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., financed by parliamentary appropriation...	7,003,000	7,003,000
Extension, expansion and improvements of capital assets financed from earnings.....	315,000	297,000
Reserve for contingencies.....	2,020,000	1,797,000
Earned surplus.....	1,274,000	988,000
	<u>\$ 38,754,000</u>	<u>\$ 32,548,000</u>

The Commission also acts as agent for the Government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, and, in this capacity, made advances to the provincial power commissions of Nova Scotia, Newfoundland and New Brunswick. Outstanding loans totalled \$32,158,000.

The following is a summary of the income and expense of the Commission for the past two years:

	Year ended March 31	
	1965	1964
Income—		
Sales of power.....	\$ 3,111,000	\$ 2,883,000
Income arising from construction, maintenance and operation of facilities for government departments and others.....	966,000	689,000
Sales of heat.....	734,000	412,000
Miscellaneous.....	205,000	171,000
	<u>5,016,000</u>	<u>4,155,000</u>
Expense—		
Operating and maintenance.....	2,887,000	2,252,000
Administrative.....	301,000	244,000
Interest on advances from the Government of Canada.....	751,000	749,000
Depreciation (equivalent to repayment of principal of advances from the Government of Canada).....	549,000	521,000
	<u>4,488,000</u>	<u>3,766,000</u>
Net income.....	<u>\$ 528,000</u>	<u>\$ 389,000</u>



Although rates for electric power were reduced at three locations during 1964-65 and at another late in the preceding year, greater consumer demand increased the revenue from this source. In addition, the Commission took over the operation and maintenance of the power plant at Moose Factory and the heating plant, water-treatment plant and other facilities at Frobisher Bay. Income arising from maintenance and operation of these facilities amounted to \$265,000; sales of power to \$92,000; and sales of heat to \$274,000.

A physical inventory of the central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., which was in progress at the end of the previous year, is nearing completion. These assets have a cost in excess of \$7 million and we were informed that determination of the costs of the various classifications of capital assets comprising this total will be available before March 31, 1966.

In the audit we found certain irregularities with respect to the collection of accounts receivable at Inuvik, N.W.T. A detailed examination was made at the site as a result of which it was determined that the cashier had withheld some \$650 which he had concealed by manipulation of the accounts. The employee admitted the defalcation and, after making restitution, submitted his resignation.

205. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c. 10, for the purpose of constructing the Northern Ontario section of the all-Canadian natural gas pipe line and leasing it (subject to approval by the Governor in Council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In due course the pipe line was constructed and leased with an option to purchase. The option was exercised and sale of the Northern Ontario section of the all-Canadian natural gas pipe line to Trans-Canada Pipe Lines Limited was completed on May 29, 1963. The purchaser assumed responsibility for the negotiation and settlement of all claims then outstanding and of any other claims which might arise in the future. Upon receipt of payment the Corporation discharged its liability to the Government of Canada for outstanding loans and interest accrued thereon, and was left with a surplus of \$694,000 of which \$690,000 remained on deposit with the Receiver General at the close of the Corporation's financial year on December 31, 1964.

The Corporation is presently considering the necessary steps to have its affairs wound up.

206. *Northern Transportation Company Limited.* This Company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation Company (1947) Limited was incorporated as a private company by letters patent dated November 27, 1947 under the provisions of the Companies Act, 1934, to take over the business of a predecessor company which had been incorporated under a Province of Alberta charter in 1934 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Government in 1944. The corporate name

was changed to Northern Transportation Company Limited by supplementary letters patent dated August 19, 1952.

The Company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere. Although the head office of the Company is in Ottawa, administrative headquarters are in Edmonton and activities have been almost wholly confined to the Mackenzie River water system and the western Arctic.

The equity of Eldorado Mining and Refining Limited at December 31, 1964 was \$6,949,000 comprising capital stock of \$152,000, a reserve for insurance of \$1,250,000 and surplus of \$5,547,000.

The following is a comparative summary of the operations of the Company for the last two years:

	Year ended December 31	
	1964	1963
Income—		
Freight earnings.....	\$ 3,074,000	\$ 2,809,000
Expense—		
Operations and maintenance:		
Salaries and wages.....	871,000	782,000
Repairs and maintenance.....	411,000	325,000
Depreciation.....	222,000	479,000
Fuels and lubricants.....	179,000	161,000
Messing expense.....	136,000	129,000
Other.....	171,000	151,000
	1,990,000	2,027,000
Administrative.....	265,000	245,000
	2,255,000	2,272,000
Net income from operations.....	819,000	537,000
Miscellaneous income.....	170,000	173,000
	989,000	710,000
Provision for income tax.....	472,000	439,000
Net income.....	\$ 517,000	\$ 271,000

Freight earnings increased by \$265,000 or 9.4% over the preceding year. The additional revenue was derived mainly from the transportation of large quantities of supplies to the Great Canadian Oil Sands project and oil drilling equipment to Alaska and sites along the Mackenzie River.

Operations and maintenance expense, excluding depreciation, increased by \$220,000 due to the larger volume of freight handled which required the services of an additional tug. There was a reduction of \$257,000 in the charge for depreciation as a result of three tugs and twenty-one barges having become fully depreciated by the end of 1963.

207. *Park Steamship Company Limited.* This Company was incorporated in 1942 under the Companies Act, 1934, for the purpose of supervising the operation of Crown-owned cargo vessels. The "Park Fleet" was sold in 1946-47 and since then the activities of the Company have been confined to the settlement of occasional claims for compensation by seamen for injuries sustained during previous service. These activities have been performed by the staff of the Canadian Maritime Commission.

Last year we observed that no claims for compensation had been received during the previous two years and suggested that the Company's charter be surrendered. It is now observed that on January 6, 1965 the Governor in Council authorized the Company to be wound up and the Crown to assume the liability for possible claims.

208. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934, pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, 1939, c.3. The Company, with its head office in Sarnia, Ontario, produces synthetic rubbers and chemicals. At December 31, 1964 there were three wholly-owned subsidiary companies, S.A. Polysar Belgium N.V., Polysar Nederland N.V., and Polysar International S.A., and one subsidiary, Polymer Corporation (SAF), in which Polymer held a 95% equity.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1964 amounted to \$90,442,000, consisting of capital stock of \$30,000,000 and retained earnings of \$60,442,000. During the year dividends of \$4,000,000 were paid to the Receiver General, compared with \$3,250,000 in the previous year.

The Company is continuing to expand its participation in synthetic rubber projects in Mexico and South Africa. At the year-end, its investment as a minority shareholder in the capital stock of the companies responsible for these projects amounted to \$2,784,000 compared with an investment of \$220,000 at the end of the previous year.

Net additions to fixed assets during the year amounted to \$4,970,000. In Sarnia, additional real estate was acquired, latex producing facilities were enlarged, and modifications were made to the resin facilities. In France and Belgium, improvements were made to production facilities. The Company estimates that \$14,236,000 will be spent for the acquisition of capital assets during the year ended December 31, 1965.

During the year the Company borrowed U.S. \$5,000,000 (\$5,400,000), repayable 1969-73, and B.Fr. 100,000,000 (\$2,162,000), repayable 1969-77, being the balance of a loan negotiated in the previous year.



The following is a summary of the operations of the Company and its subsidiaries for the past two years:

	Year ended December 31	
	1964	1963
Sales.....	\$ 113,864,000	\$ 97,460,000
Other income.....	427,000	346,000
	<u>114,291,000</u>	<u>97,806,000</u>
Cost of sales.....	92,288,000	76,576,000
Selling, administrative and research expenses.....	8,268,000	6,688,000
	<u>100,556,000</u>	<u>83,264,000</u>
Net income before provision for income tax.....	13,735,000	14,542,000
Provision for income tax.....	4,293,000	5,480,000
	<u>9,442,000</u>	<u>9,062,000</u>
Net income before minority shareholder's interest.....	9,442,000	9,062,000
Minority shareholder's interest.....	8,000	76,000
Net income.....	<u>\$ 9,450,000</u>	<u>\$ 9,138,000</u>

The increase of \$16,404,000 in sales was achieved under highly competitive marketing conditions and an increasing incidence of protective measures taken by other countries. The increases of \$15,712,000 in cost of sales and \$1,580,000 in selling, administrative and research expenses were mainly attributable to the larger sales volume and the introduction of new products, the initial costs of which were comparatively high. In computing taxable income for the years 1961 to 1964 inclusive, the Company took advantage of capital cost allowances permitted under the Income Tax Act which were in excess of depreciation charged in the accounts. The effect of this procedure was to defer payment of income tax totalling \$3,870,000 until future years when depreciation charges may be in excess of capital cost allowances.

209. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, R.S., c.242, the Authority maintains and operates the Canadian section of the 27-foot deep waterway between the Port of Montreal and Lake Erie. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans.

The Authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a president and two other members. Its head office is at Ottawa, with operating headquarters at Cornwall and regional headquarters at St. Lambert and St. Catharines.

The Crown's equity at December 31, 1964 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport (Welland Canal).....	\$ 130,717,000
Loans under section 25 of the Act:	
Interest-bearing.....	348,500,000
Interest-free.....	6,000,000
Interest on loans—deferred.....	78,997,000
	<hr/>
	564,214,000
Deduct: Deficit.....	65,107,000
	<hr/>
	\$ 499,107,000
	<hr/>

The following is a summary of the income and expense of the Authority for the past two years:

	Year ended December 31	
	1964	1963
	<hr/>	<hr/>
Income—		
Tolls.....	\$ 13,544,000	\$ 10,730,000
The Seaway International Bridge Corporation, Ltd.—net income	199,000	193,000
Other.....	1,307,000	1,122,000
	<hr/>	<hr/>
	15,050,000	12,045,000
	<hr/>	<hr/>
Expense—		
Operation and maintenance.....	7,895,000	6,231,000
Regional administration.....	741,000	700,000
Headquarters administration.....	1,274,000	1,207,000
Engineering.....	833,000	577,000
	<hr/>	<hr/>
	10,743,000	8,715,000
	<hr/>	<hr/>
Less portion allocated to		
Non-toll canals.....	355,000	462,000
Construction.....	785,000	283,000
	<hr/>	<hr/>
	1,140,000	745,000
	<hr/>	<hr/>
	9,603,000	7,970,000
	<hr/>	<hr/>
Net operating income before providing for interest and for replacement of machinery and equipment.....	5,447,000	4,075,000
	<hr/>	<hr/>
Interest on loans from the Government of Canada.....	18,064,000	16,804,000
Provision for replacement of machinery and equipment.....	865,000	961,000
	<hr/>	<hr/>
	18,929,000	17,765,000
	<hr/>	<hr/>
Net loss.....	\$ 13,482,000	\$ 13,690,000
	<hr/>	<hr/>

Tolls for the transit of the Welland Canal were suspended by the Government in July 1962. The resulting loss in revenue for 1964 was estimated at \$2,200,000.

The extent by which revenues in 1964 fell short of meeting operating expenses, interest charges and provision for replacement of machinery and equipment in each of the two sections of the waterway and of the North Channel Bridge is shown in the table below. It should be noted that the figures do not include provision for the amortization of loans of \$326,700,000 in respect of the Montreal-Lake Ontario Section which the Act requires to be paid out of earnings by December 31, 2009. However, deferred interest for the year 1961 was reduced by payment of \$5,289,000.

	Montreal-Lake Ontario Section	Welland Section	North Channel Bridge	Total
Tolls.....	\$ 13,544,000	\$ —	\$ —	\$ 13,544,000
Other income.....	366,000	941,000	199,000	1,506,000
	13,910,000	941,000	199,000	15,050,000
Expenses of operation, maintenance and administration.....	3,287,000	6,316,000	—	9,603,000
Net operating profit (loss).....	10,623,000	(5,375,000)	199,000	5,447,000
Interest on loans.....	14,999,000	2,620,000	445,000	18,064,000
Provision for replacement of machinery and equipment.....	448,000	407,000	10,000	865,000
	15,447,000	3,027,000	455,000	18,929,000
Net loss.....	\$ 4,824,000	\$ 8,402,000	\$ 256,000	\$ 13,482,000

On the Montreal-Lake Ontario Section, the net operating profit of \$10,623,000 compares with a profit of \$7,954,000 in 1963, \$6,206,000 in 1962, \$5,920,000 in 1961, \$5,245,000 in 1960 and \$6,019,000 for the nine-month period in 1959. On the Welland Section, the net operating loss of \$5,375,000 compares with a loss of \$4,072,000 in 1963, \$2,976,000 in 1962, \$2,361,000 in 1961, \$1,716,000 in 1960 and \$614,000 in 1959.

Toll revenues of the Authority for six full navigation seasons have been substantially less than had been anticipated by the Tolls Committees in 1958, as shown below:

	Montreal-Lake Ontario Section		Welland Section	
	Anticipated	Actual	Anticipated	Actual
1959.....	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960.....	10,789,000	7,156,000	2,215,000	1,326,000
1961.....	12,277,000	8,086,000	2,369,000	1,462,000
1962.....	13,765,000	8,914,000	2,575,000	642,000*
1963.....	15,254,000	10,730,000	2,730,000	—
1964.....	16,370,000	13,544,000	2,833,000	—
	\$ 77,756,000	\$ 55,535,000	\$ 14,782,000	\$ 4,654,000

\*Tolls for the transit of the Welland Section were suspended as of July 18, 1962.



Under the provisions of section 16 of the St. Lawrence Seaway Authority Act, tolls are to be "designed to provide a revenue sufficient to defray the cost to the Authority of its operations", which costs are defined as including payments in respect of the interest on amounts borrowed by the Authority and amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years. The original conditions under which loans were made to the Authority under section 25 of the Act required the payment of interest only, in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize over a period of forty-seven years (or by December 31, 2009) all loans and interest thereon. The terms of the Authority's financing arrangements were amended in 1961, in 1963, and again in 1964 and now call for repayment of all interest-bearing loans together with interest previously deferred and all other interest accrued or accruing up to December 31, 1966, together with current interest thereon, in forty-three equal annual instalments commencing December 31, 1967.

At December 31, 1964 the Authority's indebtedness to the Government of Canada amounted to \$433,497,000, represented by interest-bearing loans of \$348,500,000, interest-free loans of \$6,000,000 and deferred interest of \$78,997,000. The accumulated deficit from operations totalled \$65,107,000, an increase of \$13,482,000 for the year.

Some measure of relief to the Authority from this financial burden, caused in part by the suspension of tolls on the Welland Section in 1962, was obtained when Parliament provided for (a) the conversion as of January 1, 1965 of \$21,800,000 of the Authority's indebtedness pertaining to the Welland Canal to an interest-free loan, and (b) the payment as of January 1, 1965 to the Authority of \$27,073,000 in respect of the accumulated Welland deficit incurred by the Authority for the calendar years 1959-1964. Future annual operating losses of the Welland Section are expected to be met from parliamentary appropriations.

Following refinancing of the Welland Canal debt as at January 1, 1965, the Authority's indebtedness on the Montreal-Lake Ontario Section of the Seaway amounted to \$362,832,000. If the Authority is to meet its obligations under the Act it will require average annual revenues of \$22 million. Tolls and other income on the Montreal-Lake Ontario Section in 1964 amounted to only \$14 million.

The agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the St. Lawrence Seaway. The agreement provides that the division of tolls revenue derived from the operation of the St. Lawrence River Section of the Seaway shall be initially 71% to the Authority and 29% to the Corporation, provided, however, that these percentages shall be adjusted from time to time so that the Authority and the Corporation shall receive a proportion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway.

Calculations made by the Authority in accordance with the formula contained in the agreement indicate that the Authority should be receiving 73% of the tolls revenue and the Corporation 27%. Negotiations begun in 1963 with the Corporation to effect an adjust-

ment in the division of this revenue have not yet been concluded. If the tolls revenue for the 1964 season had been shared on the basis of adjusted percentages, the Authority's portion would have been greater by \$380,000.

Under the 1959 agreement, the Authority and the Saint Lawrence Seaway Development Corporation were to report to their respective Governments by July 1, 1964 on the adequacy of the tariff of tolls to provide sufficient revenue to meet their operating costs and financial obligations. However, the Governments of Canada and the United States agreed to defer the date on which the entities were to report from July 1, 1964 to July 1, 1966. The Governments agreed that the joint review of the tariff of tolls is to be continued and that, at the conclusion of the two-year extension, tolls proposals are to be related as realistically as possible to the financial requirements of the Seaway entities.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in paragraph (c) of section 16 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty-year period of the principal of the amounts borrowed, together with interest, as required by subsections (a) and (b) meets the requirements of the Act. Accordingly, no provision for depreciation has been included in the costs of the year.

Provision was made during the year for the cost of replacing machinery and equipment, including lock, bridge and building machinery and equipment, in the amount of \$865,000. The Reserve for Replacement of Machinery and Equipment as thus augmented amounted to \$4,822,000 at December 31, 1964. No provision has been made in the accounts for the replacement of buildings, lock gates and lock and bridge structures. The Authority considers that these Seaway works can be maintained in working condition at all times under its maintenance program.

In the payment of grants in lieu of taxes, the Authority is guided by the practices of the Municipal Grants Division of the Department of Finance. When canal lands were transferred from the Department of Transport to the Authority in 1959, the Authority continued to pay grants in lieu of taxes on the properties transferred to it according to the valuations previously established and agreed upon with the municipalities by the Municipal Grants Division. The areas on which grants have been made include all lands under the Authority's control, whether firm lands, artificially flooded lands, part of the bed of the canal or part of naturally submerged lands. Increased assessments have been accepted from time to time on various canal lands based on averaged value of adjoining firm lands some one thousand feet on both sides. The Authority pays approximately \$30,000 in annual grants in lieu of taxes on land covered by water at the Lake Ontario and Lake Erie entrances to the Welland Canal and at the St. Mary's River entrances to the Sault Ste. Marie Canal. In 1964 accepted valuations for submerged lands at the Welland Canal entrances totalled \$359,612 including \$292,809 for 46.7 acres (over half of which is said to be naturally submerged) at \$6,270 per acre.

In the course of our audit, a question was raised concerning the payment of grants on submerged lands. The members of the Authority have decided that the Authority will



continue to pay grants on naturally submerged lands at the valuations previously accepted, but that no further increase in valuation for these lands will be accepted. A decision has yet to be reached by the Authority with respect to other lands covered by water.

In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute \$250,000 towards the cost of extending the collector sewer which was then being constructed as the main part of the Authority's remedial works on the south shore of the St. Lawrence River. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the \$250,000 contribution. The sewer extension was completed in 1963 at a cost of \$480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties.

Following the initial reports of a firm of traffic management consultants who were engaged to study the cause of traffic congestion on the Welland Canal, plans for the immediate twinning of the single locks of the Welland Canal, which had been announced in connection with the amendment to the St. Lawrence Seaway Authority Act to provide \$180,000,000 for the twinning of the locks, were revised and a decision was made to implement those recommendations of the consultants which would reduce delays and increase the capacity of the canal at the earliest date. An increase of 40% in capacity is expected by the opening of the 1967 navigation season as a result of changes proposed by the consultants, compared to the previously announced 60% increase expected from the twinning of the locks.

Order in Council P.C. 504 of March 1, 1932 provided for the construction by the Beauharnois Light, Heat and Power Company and transfer to the Crown of a canal suitable for navigation. The canal was conveyed to the Crown in 1932.

Under the terms of a 1932 agreement drawn in accordance with the provisions of the Order in Council, the Company, which has since been taken over by the Quebec Hydro-Electric Commission, is responsible for certain operating and maintenance expenses of the canal. In 1959 this canal became part of the St. Lawrence Seaway and the Authority incurred costs which were recoverable from the Commission.

In 1964, the Commission paid the Authority \$32,000 to cover the maintenance costs for the years 1959, 1960 and 1961. As to the costs for 1962 and 1963 amounting to \$23,000, and subsequent years, the Commission stated that, by virtue of provincial legislation passed in 1962, it did not feel there was any obligation on its part to cover the costs incurred by the Authority under the 1932 agreement. The legislation is Chapter 27 of the Statutes of Quebec, 1962, being an Act to dissolve Beauharnois Light, Heat and Power Company. Section 3 of the Act reads:

The Quebec Hydro-Electric Commission shall carry out all the contracts legally entered into by Beauharnois Light, Heat and Power Company and still in force, and shall perform all the obligations thereof.

Nothing in this section, however, shall oblige the Quebec Hydro-Electric Commission to carry out any contract made between Beauharnois Light, Heat and Power Company and Her Majesty in the right of Canada, or to perform any obligation imposed by the latter.



We were informed that, in the opinion of the Authority, the balance remains payable since the Commission's obligation as successor to the Beauharnois Light, Heat and Power Company was not affected by the provincial Act dissolving the Company.

Settlement of the outstanding issues with respect to the Beauharnois Canal now appears to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and capital expenditures relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1964	1963
Expense—		
Operation and maintenance .....	\$ 1,837,000	\$ 2,860,000
Grants in lieu of municipal taxes .....	421,000	638,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals.....	355,000	462,000
	<hr/>	<hr/>
	2,613,000	3,960,000
Income from rentals, wharfage, etc. ....	625,000	559,000
	<hr/>	<hr/>
Operating deficit.....	1,988,000	3,401,000
Capital expenditures .....	293,000	164,000
	<hr/>	<hr/>
Operating deficit and capital expenditures (recovered from parlia- mentary appropriations) .....	\$ 2,281,000	\$ 3,565,000
	<hr/>	<hr/>

The decrease of \$1,347,000 in expense for 1964 was due mainly to the non-recurrence of the following items charged in 1963: (a) special grants of \$473,000 to municipalities for assuming responsibility for part of the Welland Feeder Canal that had not been used for navigation since 1924; and (b) repairs to two bridges over the Lachine Canal at a cost of \$508,000. Grants in lieu of taxes amounted to \$421,000 compared with \$638,000 in 1963 when retroactive payments were made.

In 1959 the administration of the Cornwall Canal was transferred from the Department of Transport to the Authority which then assumed responsibility for payment of grants in lieu of taxes to the City of Cornwall. In January 1965 it was discovered that a parcel of land expropriated in 1955 had been taken into account twice by the Authority in calculating the grants, with the result that the City of Cornwall had been overpaid \$130,000 over a period of five years. Negotiations for recovery are still in progress.

Properties transferred in 1959 from the jurisdiction of the Department of Transport to that of the Authority included "that portion of the Ontario-St. Lawrence Canals remaining in service after the flooding of the pool above the power dam at Cornwall". No former canal remains in service above the dam, but the Authority, for the convenience of the Department of Transport, administers certain properties above the dam and charges the expenditures incurred to the appropriation provided to the Authority for the operation of the non-toll canals. The major expenditure, amounting to approximately \$6,000, is for annual grants paid to three municipalities in lieu of taxes.

Capital expenditures of \$293,000 include \$282,000 for the purchase of a property with frontage on Cornwall Canal land. A reference to this expenditure is contained in paragraph 125 of this Report.

210. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Companies Act, pursuant to section 24A of the St. Lawrence Seaway Authority Act, as a subsidiary of The St. Lawrence Seaway Authority for the purpose of operating and managing the international toll bridge between Cornwall, Ontario, and Rooseveltown, New York, on behalf of the owners, The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Seaway entities have an equal interest in the assets of the Corporation and each has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Saint Lawrence Seaway Development Corporation, the annual income from operation of the bridge system, after payment of operating expenses, is to be applied first towards the amortization of the cost of the North Channel Bridge, together with interest, after which the balance of the income is to be divided equally between the Seaway entities.

The following is a summary of the Corporation's operations for the last two years:

	Year ended December 31	
	1964	1963
Income—		
Bridge tolls.....	\$ 371,000	\$ 367,000
Other.....	15,000	20,000
	<u>386,000</u>	<u>387,000</u>
Expense—		
Salaries, wages and employee benefits.....	119,000	113,000
Rental of toll collection machines.....	13,000	13,000
Maintenance materials and services.....	11,000	15,000
Grant in lieu of municipal taxes.....	11,000	11,000
Advertising.....	9,000	14,000
Other.....	24,000	28,000
	<u>187,000</u>	<u>194,000</u>
Net income—transferred to The St. Lawrence Seaway Authority.	<u>\$ 199,000</u>	<u>\$ 193,000</u>

The amount of \$199,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost of the North Channel Bridge, together with interest, leaving an unamortized balance of \$9,140,000 at December 31, 1964. It will be noted by reference to paragraph 209 that the amount transferred did not cover the interest charges of \$445,000 for the year on the indebtedness of the Authority with respect to the North Channel Bridge.

## Departmental Operating Activities

211. Our Reports for several successive years have pointed out that although the Financial Administration Act requires that Crown corporations prepare specified statements of accounts annually, there is no statutory direction respecting the preparation of appropriate financial statements by departments and non-corporate agencies engaged in trading or servicing activities. The usual procedure has been to confine reporting to the inclusion of the revenue from such activities among the other items of revenue in the Public Accounts, while the expenditure reporting has been associated with the relevant parliamentary appropriations. Where Parliament has authorized the operation of revolving funds for the purpose of acquiring and managing stores, etc., statements summarizing the transactions in the funds are also included in the Public Accounts.

Over the past several years we have expressed the view that Parliament should be provided with clearer information concerning the actual financial results of departmental trading and servicing activities. To that end, and without necessarily disturbing the bases of reporting presently followed, we have stressed the desirability of including in the Public Accounts financial statements for the various activities showing the overall results of operations clearly and concisely. The statements contemplated would be on the accrual basis and include charges for the amortization of building and equipment costs, interest on funds employed, the value of services provided without charge by other departments, etc. The form of presentation would permit a reconciliation between the operating results on this basis and those recorded on the cash basis. Also contemplated is the preparation of balance sheets to show the financial position of the activities at the year-end. The Audit Office would be prepared to examine and certify such statements.

Our view received the support of the Public Accounts Committee which in its Fifth Report 1961 stated that "it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, were overall financial statements included in the Public Accounts without undue cost or staff increases". Again, in its Fourth Report 1963 the Committee reiterated this belief and the Auditor General was requested "to continue to keep development of this objective under close surveillance and to report to the Committee in due course". (See Appendix 1, item 2.)

The Royal Commission on Government Organization also pointed out that the appropriation accounts kept on a cash basis do not adequately reflect the financial results of the operating activities carried on by many departments. The Commission recommended that the financial results of departmental operating activities be prepared and presented in a more informative manner, not only to assist Parliament but also to aid management in the control of its costs.

The paragraphs which follow illustrate how a number of the larger departments and agencies involved in trading or servicing activities have already reached or are progressing towards the development of financial statements along these lines. It will be noted that the publishing activities of the Queen's Printer have been treated separately from public printing and stationery activities. The latter, formerly the responsibility of the Department of Public Printing and Stationery, are now the responsibility of the Department of Defence Production.



212. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, R.S., c.4, and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

In response to the recommendation of the Public Accounts Committee in its Fifth Report 1961, overall financial statements, including the estimated cost of major services provided without charge by government departments, were prepared by the Agricultural Products Board. These have been examined and certified by us and are to be found in the Public Accounts (Volume II, pages 1.36 to 1.38).

The proprietary equity of the Government of Canada at the year-end was represented by inventories, at cost, consisting of: 3,735,000 pounds of dry skim milk valued at \$473,000; and 229,000 dozen whole eggs and 177,000 pounds of dried eggs valued at \$274,000.

A summary of the results of operations for the years ended March 31, 1965 and 1964 follows:

	Year ended March 31	
	1965	1964
Sales—Dry skim milk.....	\$ 2,505,000	\$ 2,088,000
Cost of sales—		
Inventory, April 1.....	453,000	1,195,000
Purchases.....	3,026,000	2,240,000
Storage.....	36,000	78,000
Processing costs.....	35,000	—
	3,550,000	3,513,000
Less: Inventory, March 31.....	747,000	453,000
	2,803,000	3,060,000
Net loss on sales.....	298,000	972,000
Freight, cartage, handling.....	2,000	32,000
Estimated cost of major services provided without charge by government departments:		
Interest on working capital .....	39,000	82,000
Administration.....	5,000	5,000
Accounting and cheque issue.....	2,000	2,000
	46,000	89,000
Total loss.....	\$ 346,000	\$ 1,093,000

The loss for the year was met to the extent of \$300,000 by funds provided by Department of Agriculture Vote 85d, and to the extent of \$46,000 by major services provided without charge by government departments.

Only two agricultural products, first grade dry skim milk and grade A eggs, were purchased during the year. The Board purchased 25,340,000 pounds of dry skim milk, at eleven cents per pound, from exporters and resold the product, at a lower price, to the same exporters without taking possession. Payment of the differential of four cents per pound on 1,408,000 pounds and one cent per pound on 23,932,000 pounds, aggregating \$296,000, was made to the relative exporters on presentation of export documents. The Board's stock of dry skim milk declined by 119,000 pounds which was sold to the Department of External Affairs for donations to other countries. The eggs were acquired as part of the World Food Program and none were sold.

213. *Agricultural Stabilization Board.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are met through annual parliamentary appropriations.

The proprietary equity of the Government of Canada at the year-end of \$21,834,000 was represented by inventories, at estimated market value, consisting of 44,555,000 pounds of butter, \$21,961,000, and 3,650,000 pounds of pork, \$1,102,000, offset in part by advances from customers and accounts payable aggregating \$1,229,000.

For a number of years the Board experienced a mounting surplus in stocks of butter since very little opportunity was found for substantial export sales. However, during 1964 generally poor production conditions prevailed in Europe. It was thus possible to dispose of the residual stocks accumulated from 1958 to 1962 to the extent that the inventory of butter decreased by 102.2 million pounds from the 146.7 million pounds held on March 31, 1964.

The results of the Board's activities for the year ended March 31, 1965 are summarized as follows:

Trading operations—

Cost of products sold.....	\$ 92,799,000
Revenue from sales.....	80,622,000
Net loss on sales.....	12,177,000
Cost of products destroyed by fire.....	87,000

Net loss on trading operations.....

\$ 12,264,000

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—by commodities—

	Sales	Cost of Sales	Net loss
Butter.....	\$ 71,633,000	\$ 83,111,000	\$ 11,478,000
Pork.....	193,000	273,000	80,000
Cheese.....	8,796,000	9,502,000	706,000
	<u>\$ 80,622,000</u>	<u>\$ 92,886,000</u>	<u>\$ 12,264,000</u>
Deficiency payments—			
Eggs.....			986,000
Wool.....			553,000
Sour cherries.....			300,000
Other.....			1,000
			<u>1,840,000</u>
Payments for stabilization of prices—			
Butterfat content of milk and cream.....			35,497,000
Milk used for cheddar cheese.....			4,339,000
Dried casein and caseinates.....			1,941,000
			<u>41,777,000</u>
Estimated cost of major services provided without charge by government departments—			
Interest on working capital.....			4,815,000
Administration.....			564,000
Accounting.....			182,000
Accommodation.....			33,000
Contribution to Public Service Superannuation Account.....			16,000
Carrying of franked mail.....			7,000
Employee surgical-medical insurance premiums.....			1,000
Employee compensation payments.....			1,000
			<u>5,619,000</u>
Net loss for the year.....			<u>\$ 61,500,000</u>

The loss for the year together with the balance of loss of \$2,555,000 brought forward from the previous year was met to the extent of \$57,118,000 by funds provided by Department of Agriculture Vote 80d, and to the extent of \$5,619,000 by major services provided without charge by government departments. The balance of the loss, \$1,318,000, was deducted from the proprietary equity of the Government of Canada on the balance sheet of the Board.

During the year, two fires occurred in warehouses containing Board products and losses of butter valued at \$23,000, and pork valued at \$64,000, were charged to trading operations.

Toward the close of the year, the Board received reports of thefts involving 64,000 pounds of butter valued at \$33,000 stored in warehouses located in the Province of Quebec. The Board obtained a legal opinion to the effect that under circumstances of forcible entry, the warehouse proprietors would not be liable. This loss will be written off as a charge to operations in the ensuing year.



214. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1965 was \$629,007,000 compared with \$605,596,000 at the same date in the preceding year, a net increase of \$23,411,000 for the year.

The revenue from civil aviation airport operations for the year amounted to \$22,441,000 compared with \$16,971,000 for the preceding year. Details of this revenue, together with comparable figures for the preceding year, are as follows:

	Year ended March 31	
	1965	1964
Aircraft landing fees—		
Domestic.....	\$ 3,822,000	\$ 3,609,000
Trans-oceanic.....	6,243,000	3,478,000
Trans-border.....	992,000	992,000
Other.....	27,000	15,000
	<u>11,084,000</u>	<u>8,094,000</u>
Rentals—		
Office, shop and garage space.....	2,298,000	1,425,000
Living quarters.....	364,000	361,000
Hangar.....	173,000	183,000
Other.....	1,189,000	1,036,000
	<u>4,024,000</u>	<u>3,005,000</u>
Concessions—		
Gasoline and oil.....	2,063,000	1,927,000
Other.....	3,160,000	2,200,000
	<u>5,223,000</u>	<u>4,127,000</u>
Miscellaneous revenue.....	2,110,000	1,745,000
Total revenue.....	<u>\$ 22,441,000</u>	<u>\$ 16,971,000</u>

The provision for "Airports and Other Ground Services—Operation and Maintenance" (included in Department of Transport Vote 35) was charged with expenditures totalling \$24,114,000 for the year 1964-65, an increase of \$3,833,000 over the corresponding figure of \$20,281,000 for the preceding year. The excess of expenditure (excluding new construction) on airways and airports over the revenue received was therefore \$1,673,000, a decrease of \$1,637,000 from the preceding year's figure of \$3,310,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual

basis for its operations at 17 of the major airports, which together account for approximately 91% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes. A consolidation of these statements, which includes a provision for depreciation of civil aviation facilities (though not for the other costs referred to), for the year ended March 31, 1965 is given as an appendix to the Department's section in Volume II of the Public Accounts.

215. *Board of Grain Commissioners for Canada.* This Board operates under the authority of the Canada Grain Act, R.S., c. 25, and is composed of a chief commissioner and two other commissioners appointed by the Governor in Council. The Board has jurisdiction to inquire into any matter relating to grading, weighing and storage of grain, unfair or discriminatory operation of any elevator, and any other matter arising out of the performance of the duties of the Board.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1965	1964
Expenditure—		
Salaries, allowances, etc.....	\$ 4,465,000	\$ 4,496,000
Contributions to Public Service Superannuation Account.....	260,000	249,000
Rent.....	189,000	192,000
Travel.....	148,000	158,000
Printing and stationery.....	65,000	54,000
Other.....	314,000	269,000
	<u>5,441,000</u>	<u>5,418,000</u>
Revenue—		
Inspection.....	2,360,000	2,034,000
Weighing.....	1,159,000	1,005,000
Registrations and cancellations.....	67,000	58,000
Licences.....	28,000	28,000
Sundry.....	4,000	4,000
	<u>3,618,000</u>	<u>3,129,000</u>
Excess of expenditure over revenue.....	<u>\$ 1,823,000</u>	<u>\$ 2,289,000</u>

The practice of sampling wheat in railway cars at Calgary, Edmonton and Winnipeg was discontinued during the year and sampling is now done at the Lakehead or tidewater. A slight reduction in staff has resulted.

The fees chargeable for inspection and weighing services are, for the most part, based on volume of grain. The increased earnings from these services are attributed to the increase in the movement of grain due to the sale of wheat to Russia.

In previous Reports we have pointed out that the fees charged for the various services provided by the Board had not been revised since 1949, although the costs of performing these services had been steadily increasing. With effect from August 1, 1965, the fees to be charged for inspection and weighing services have been increased by 50% (see Appendix 1, item 12).

Estimated costs, aggregating \$294,000, for contributions to the Public Service Superannuation Account and other employee benefits, which have been provided without charge by government departments, are included as expenditure of the Board.

**216. Canadian Government Elevators.** The Canadian Government Elevators comprise six elevators, located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, and are managed and operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, R.S., c. 25, and Order in Council P.C. 1372 of August 19, 1925.

The proprietary equity of the Government of Canada in the Elevators at March 31, 1965 was \$11,115,000, represented by fixed assets costing \$10,543,000, advances for recoverable freight charges, \$93,000, and working capital, \$479,000.

The following is a summary of the results of operations for the year with comparable amounts for the preceding year:

	Year ended March 31	
	1965	1964
Operating revenue—		
Storage.....	\$ 480,000	\$ 558,000
Elevation.....	446,000	343,000
Cleaning.....	143,000	91,000
Screenings.....	102,000	75,000
Drying.....	75,000	17,000
Other.....	51,000	20,000
	<u>1,297,000</u>	<u>1,104,000</u>
Expense—		
Salaries and wages.....	911,000	886,000
Grants in lieu of taxes.....	151,000	195,000
Power.....	96,000	84,000
Maintenance—buildings, plant and equipment.....	72,000	149,000
Head office expenses.....	71,000	59,000
Contributions to Public Service Superannuation Account.....	51,000	58,000
Employees' surgical-medical insurance and compensation.....	7,000	7,000
Other.....	49,000	35,000
	<u>1,408,000</u>	<u>1,473,000</u>
Operating loss, without provision for depreciation.....	<u>\$ 111,000</u>	<u>\$ 369,000</u>



Normal practice in the grain trade is to allow free storage for the first five days on all grains received. The rapid turnover of wheat resulting from the large volume of sales abroad was the main factor in the decline in revenue from storage. During 1964-65 the Elevators handled 2,420,000 bushels of rapeseed compared with 472,000 in the previous year. The rate for elevation of rapeseed is  $5\frac{1}{8}$  cents per bushel whereas the rate charged for wheat is only  $1\frac{5}{8}$  cents per bushel. The increased number of bushels of rapeseed handled during 1964-65 accounts for the increased revenue from elevation. The condition of the grains received, especially rapeseed, was such that exhaustive cleaning was required resulting in an increase in the revenue from cleaning and screenings.

During 1963-64 grants in lieu of taxes were increased and the adjustment was made retroactive to January 1, 1961. The restoration of concrete bins was completed in 1963-64, at a cost of \$86,000, and no extensive repairs were undertaken during 1964-65.

The loss of \$65,000 by the Lethbridge elevator was its twentieth consecutive annual loss. The accumulated deficits during this period have amounted to \$885,000.

Estimated costs, aggregating \$58,000, for contributions to the Public Service Superannuation Account and other employee benefits, which have been provided without charge by government departments, are included as items of expense of the Elevators.

217. *National Film Board.* This Board was established in 1939 by the National Film Act, R.S., c. 185, for the purpose of initiating and promoting the production and distribution of films in the national interest. In accordance with section 18 of the Act, the National Film Board Operating Account in the Consolidated Revenue Fund has been credited with amounts provided by annual parliamentary appropriations for "Administration, Production, and Distribution of Films and Other Visual Materials" (National Film Board, Vote 1), with amounts transferred from appropriations of other government departments in respect of work undertaken for them, and with income from the sale and rental of films and other visual materials. All expenditures made by the Board have been charged to the Account, with the exception of expenditures on capital equipment acquired for its own use which have been charged to a separate appropriation. Included in the expenditures charged to the Account are the costs of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by the National Film Board Vote L30, Appropriation Act No. 5, 1963.

The equity of the Crown in the Board at March 31, 1965 was \$2,441,000 compared with \$1,820,000 at the end of the previous year. The equity consisted of a balance of \$1,109,000 in the National Film Board Operating Account, including \$94,000 for the Canadian Government Photo Centre equipment, and \$1,332,000, being the cost of the Board's capital equipment less accumulated depreciation and disposals.

The following is a comparative summary of expense and income for the past two years:

	Year ended March 31	
	1965	1964
Expense—		
Production of films and other visual materials.....	\$ 3,480,000	\$ 3,068,000
Distribution of films.....	2,654,000	2,413,000
Cost of production of films and other visual materials for government departments and others.....	2,744,000	1,631,000
Estimated cost of major services provided without charge by government departments.....	1,091,000	1,099,000
Administration and general services.....	1,017,000	963,000
Canadian Government Photo Centre—net loss.....	12,000	—
Depreciation on equipment.....	344,000	349,000
	<u>11,342,000</u>	<u>9,523,000</u>
Income—		
Sales of films and other visual materials.....	3,120,000	1,844,000
Rentals and royalties.....	724,000	757,000
Miscellaneous.....	50,000	29,000
	<u>3,894,000</u>	<u>2,630,000</u>
Net expense.....	<u>\$ 7,448,000</u>	<u>\$ 6,893,000</u>
Net expense provided by:		
Parliamentary appropriations.....	\$ 6,013,000	\$ 5,445,000
Major services provided without charge by government departments.....	1,091,000	1,099,000
Depreciation.....	344,000	349,000
	<u>\$ 7,448,000</u>	<u>\$ 6,893,000</u>

The gross expense of the Board increased by \$1,819,000, or 19% over the total for the previous year. This was mainly due to an overall increase of \$1,525,000 in the combined production costs of films and other visual materials, of which \$1,113,000 related to sponsored productions undertaken for government departments and agencies and \$412,000 to the expansion of the regular production program.

The income of the Board increased by \$1,264,000, or 48% over that of the previous year. This was due largely to various special projects undertaken during the year for the Canadian Corporation for the 1967 World Exhibition, the Centennial Commission, and certain government departments.

The estimated cost of accommodation, contributions to the Public Service Superannuation Account and other employee benefits, accounting, cheque issue and other services provided to the Board without charge by government departments, is included in a single amount of \$1,091,000 in the Statement of Income and Expense, a corresponding

analysis being shown in the lower part of the statement. We have recommended to the management that the costs of these services be integrated as soon as practicable into the costing system to produce accurate costs as well as to render possible a more realistic and complete presentation of the various costs of production and administration of the Board in its annual financial statements.

The Canadian Government Photo Centre which was established in 1964 for the purpose of co-ordinating the Government's still photographic activities, began operations in Ottawa on December 1, 1964. For the four-month period ended March 31, 1965 the operations of the Centre showed a profit of \$4,700 but there were preliminary expenses of \$16,700, the net result being a loss of \$12,000 which was absorbed by the Board.

On the recommendation of a Board of Survey constituted in accordance with section 60 of the Financial Administration Act, the Board deleted from its inventory obsolete and damaged stores having a cost value of \$4,024. These stores formed part of the assets of the National Film Board Operating Account and their deletion resulted in a deficiency in that Account. A provision of section 18(5) of the National Film Act is that "no amount may be credited to the Account to meet the deficiency except pursuant to an appropriation by Parliament for that purpose". Notwithstanding this prohibition, the amount of the deficiency was credited to the Account and charged to the National Film Board appropriation for "Administration, Production and Distribution of Films and other Visual Materials" which, in our opinion, is not "an appropriation by Parliament for that purpose" within the meaning of section 18(5) of the National Film Act.

218. *Post Office activities.* The following is a summary of Post Office transactions recorded in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1965 in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1965	1964
Gross postal revenue.....	\$ 263,704,000	\$ 235,808,000
Less: Expenses paid from revenue.....	33,268,000	35,091,000
Net postal revenue.....	230,436,000	200,717,000
Miscellaneous.....	53,000	57,000
	<u>230,489,000</u>	<u>200,774,000</u>
Expenditures from parliamentary appropriations—		
Operations.....	135,375,000	135,609,000
Transportation.....	69,056,000	65,952,000
Administration, financial services, etc.....	6,028,000	5,334,000
	<u>210,459,000</u>	<u>206,895,000</u>
Excess of revenue over expenditure.....	\$ 20,030,000	\$ (6,121,000)



The Department estimates that, of the \$27.9 million increase in gross postal revenue, approximately \$8.8 million was due to increases in registration and special delivery fees effective November 1, 1963 and in C.O.D. fees and third class matter rates effective April 1, 1964.

The recorded excess of revenue over expenditure of \$20,030,000 did not take into consideration the cost of services provided without charge by other government departments. These costs were estimated at \$35,825,000 and comprised the following: accommodation, \$25,298,000; contributions to the Public Service Superannuation Account and to employee surgical-medical insurance premiums, \$9,681,000; accounting and cheque issue services, \$584,000; and employee compensation payments, \$262,000. Credits for carrying mail franked by and sent to other government departments and Members of Parliament estimated at \$4,210,000 were also excluded. Had this unrecorded expenditure and revenue been taken into account, there would have been an operating deficit for the year of \$11,585,000 instead of an excess of revenue over expenditure of \$20,030,000.

219. *Public Printing and Stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged exclusively with the following duties in relation to services required for the Senate and House of Commons and the several departments of the Government:

- (a) the execution and audit of all printing, stereotyping, electrotyping, lithography, binding work, or work of the like nature, and the procuring of the material therefor;
- (b) the purchase and distribution of all paper, books and other articles of stationery of whatsoever kind, except books that are required for the Library of Parliament, and printed books required for the use of the chaplains, libraries or schools in the penitentiaries which may be procured in the manner authorized by law;
- (c) the sale of all books or publications issued by order of either or both Houses of Parliament or by any department of the Government; and
- (d) the audit of all accounts for advertising.

For the purpose of carrying out the provisions of the Act, a working capital advance (Queen's Printer's Advance) is authorized under section 37 of the Act to enable the Queen's Printer to purchase material for the execution of orders given or requisitions made under the provisions of the Act, and to pay the wages of workmen engaged in the execution of such orders or requisitions. Administrative expenses and capital expenditures are provided for by annual parliamentary appropriations.

With a view to implementing certain recommendations made by the Royal Commission on Government Organization, the Governor in Council under the Public Service Rearrangement and Transfer of Duties Act, transferred the powers, duties and functions of the Department of Public Printing and Stationery in 1963-64 as follows:

July 25, 1963

Order in Council P.C. 1963-1130 provided for the transfer to the Minister of Industry of the powers, duties or functions of the Secretary of State of Canada under the Public Printing and Stationery Act.

August 21, 1963	Order in Council P.C. 1963-1254 provided for the transfer to the Department of Defence Production of the control or supervision of the Procurement Purchasing and Stores Branch, the Production Branch, the Outside Printing Production Branch, and the supporting services contained in the Departmental Secretary's Branch, the Administrative Services Branch and the Financial Services Branch of the Department of Public Printing and Stationery.
October 3, 1963	Order in Council P.C. 1963-1450 provided for the transfer from the Department of Defence Production to the Department of Public Printing and Stationery of the responsibility for the procurement of print for books and publications.
February 3, 1964	Order in Council P.C. 1964-156 provided in part for the transfer to the Secretary of State of Canada of the powers, duties or functions of the Minister of Industry relating to the Department of Public Printing and Stationery.

The effect of the foregoing is that the functions of the Department of Public Printing and Stationery, with the exception of the publication and distribution of books and publications which were returned to the Department, have been assigned to the Department of Defence Production, as follows: (a) the Canadian Government Supply Service which administers the Procurement Purchasing and Stores Branch, and (b) the Canadian Government Printing Bureau which operates the main printing plant in Hull, Que. and the outside printing plants.

Existing legislation governing printing and stationery has remained substantially unchanged since 1886. Many of the provisions of the Public Printing and Stationery Act are no longer applicable or have proven impracticable. For example:

- (1) The Department of Public Printing and Stationery today administers only a small segment of the duties with which it is charged by the Act.
- (2) The qualification requirements for appointments to the several positions set forth in the Act are not always adhered to and the officers appointed are not always in charge of the functions set out in the statute.
- (3) Section 14 of the Act provides for the establishment of the Printing Bureau in Ottawa but the plant has been located in Hull, Que. for many years and printing units are located in various parts of the country.
- (4) The position of Superintendent of Stationery is no longer occupied.
- (5) The responsibility for the audit of all advertising accounts was transferred to the Comptroller of the Treasury in 1954 and remains there.
- (6) The responsibility placed on the Queen's Printer by the Act for the examination and certification of certain railway accounts has been carried out by the Canadian National Railway Company for years.
- (7) The Act requires the Auditor General annually or more frequently at his discretion to cause the stock of stationery, printing materials and supplies in store to be checked with the quantity purchased and supplied. Printing units are located at 18 different centres in Canada outside of Ottawa and stationery and printing stocks have been merged with the stores inventories of the Canadian Government Supply Service, a branch of the Department of Defence Production. For these reasons it is impracticable to provide the type of specific audit certificate required by section 34(2) of the Public Printing and Stationery Act.

We are informed that draft legislation is in course of preparation designed to implement the changes already approved by the Governor in Council. We understand that it will also correct the anomalies referred to above.

The basic operating expenses of the stores and printing activities are charged to the Queen's Printer's Advance under section 37 of the Public Printing and Stationery Act. The Act provides that "the amount of outstanding advances to the Queen's Printer, after deducting therefrom all amounts due to him by either House of Parliament or by the several departments shall at no time exceed the sum of four million dollars". This authority has been divided between the Canadian Government Supply Service and the Canadian Government Printing Bureau. However, as separate accounting departments were set up only in the last quarter of the year, the form of the financial statements at March 31, 1965 remains substantially the same as in previous years.

The following is a summary of the operations of the Queen's Printer's Advance for the year together with comparable figures for the previous year:

	Year ended March 31	
	1965	1964
Sales.....	\$ 21,363,000	\$ 19,639,000
Deduct: Cost of sales.....	20,698,000	19,372,000
Profit on sales.....	665,000	267,000
Discount earned, etc.....	13,000	9,000
Profit (due to the Receiver General).....	\$ 678,000	\$ 276,000

In determining this profit no provision has been made for the cost of services and facilities such as light, power, telephone, heating, amortization of building and equipment costs, etc., provided by other government departments and by Department of Defence Production appropriations. A comparison of the expenditures from Department of Defence Production appropriations with those of the preceding year is as follows:

	Year ended March 31	
	1965	1964
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel and repairs to office equipment).....	\$ 1,389,000	\$ 1,228,000
Directorate of Printing		
Administration.....	565,000	636,000
Plant, equipment and replacements.....	336,000	83,000
Gratuities to families of deceased employees.....	1,000	—
	\$ 2,291,000	\$ 1,947,000

In accordance with section 58 of the Financial Administration Act, the profit of \$678,000 was transferred to revenue—"Return on Investments". This unusually large



profit arose because of the considerable increase in productive hours caused by the extra volume of work resulting from the long session of Parliament. It was earned partially by the Canadian Government Printing Bureau (\$580,000) and by the Canadian Government Supply Service (\$98,000).

At March 31, 1965 the amounts due the Department of Defence Production as a result of sales made to the House of Commons and to the several departments by the Canadian Government Printing Bureau and the Canadian Government Supply Service were as follows:

	Printing Bureau	Supply Service	Total
Agriculture.....\$	46,000	\$ 29,000	\$ 75,000
Citizenship and Immigration.....	53,000	25,000	78,000
Defence Production.....	21,000	39,000	60,000
Finance.....	125,000	104,000	229,000
House of Commons.....	700,000	17,000	717,000
Labour.....	103,000	2,000	105,000
Mines and Technical Surveys.....	50,000	11,000	61,000
National Defence.....	475,000	337,000	812,000
National Revenue.....	60,000	43,000	103,000
Post Office.....	48,000	33,000	81,000
Secretary of State.....	190,000	4,000	194,000
Trade and Commerce.....	336,000	33,000	369,000
Transport.....	44,000	19,000	63,000
Queen's Printer (Publications).....	383,000	5,000	388,000
Others*.....	398,000	717,000	1,115,000
Total .....	\$ 3,032,000	\$ 1,418,000	\$ 4,450,000

\*Includes an amount of \$497,000 unbilled to departmental customers at the year-end.

An analysis of the accounts receivable showed that an amount of \$615,000 had been outstanding for more than sixty days. It appears, therefore, that a more aggressive follow-up on collections should be initiated by the Department. Instances were noted where delays in payment were due to the debtor departments being without funds pending the passing of supplementary estimates.

In accordance with section 34(2) of the Public Printing and Stationery Act we reported to the Minister of Defence Production on our examination of the stores on hand. Included in the year-end inventories were obsolete or unserviceable stores in the amount of \$41,000. These stores are held by the Canadian Government Supply Service and no action had been taken at the year-end to have them deleted under section 60 of the Financial Administration Act. The value of the inventory on hand at March 31, 1965, \$2,900,000, included an unrealized profit of \$19,000 due to the fact that some stores are valued for inventory purposes at standard cost instead of at actual cost (see paragraph 231).

In the year 1961-62, 247 typewriters purchased through the revolving fund at a cost of \$53,000 were supplied to the House of Commons on an annual rental basis of 5% of the cost. As at March 31, 1965, the recoverable balance was \$44,000. It is clear that a rental charge of 5% of cost per annum is insufficient to recover the original cost of these machines before they are worn out.

220. *Queen's Printer—publishing activities.* According to the provisions of the Public Printing and Stationery Act, R.S., c. 226, and Orders issued by the Governor in Council under the Public Service Rearrangement and Transfer of Duties Act, the Department of Public Printing and Stationery is now charged solely with the function of procurement of print for books and publications and with the distribution of parliamentary and departmental publications. These operations include the printing of the Canada Gazette, the Statutes of Canada and publications required by the Government and the general public.

The Department operates with funds provided by parliamentary appropriations. Major services, such as carrying franked mail, accommodation, etc., are supplied free of charge by other departments.

A summary of expenditure and revenue for the year, together with comparable figures for the preceding year, follows:

	Year ended March 31	
	1965	1964
Expenditure—		
Parliamentary appropriations:		
Administration.....	\$ 177,000	\$ 141,000
Printing and binding official documents.....	1,349,000	1,126,000
Distribution of official documents.....	1,041,000	690,000
Printing of Canada Gazette.....	152,000	150,000
Printing and binding annual statutes.....	14,000	40,000
	<u>2,733,000</u>	<u>2,147,000</u>
Approximate value of major services provided without charge by other departments:		
Accommodation.....	260,000	264,000
Accounting and cheque issue.....	32,000	31,000
Contributions to Public Service Superannuation Account....	61,000	63,000
Employee surgical-medical insurance premiums.....	6,000	6,000
Employee compensation payments.....	1,000	1,000
Carrying of franked mail.....	554,000	378,000
	<u>914,000</u>	<u>743,000</u>
	<u>3,647,000</u>	<u>2,890,000</u>
Revenue—		
Proceeds from sales.....	1,853,000	1,763,000
Service fees for art work performed for other government departments.....	12,000	—
Commissions on sales of publications issued by international organizations of which Canada is a member nation.....	19,000	33,000
Royalties from copyrights on government publications.....	77,000	68,000
	<u>1,961,000</u>	<u>1,864,000</u>
Excess of expenditure over revenue.....	\$ 1,686,000	\$ 1,026,000

Parliamentary appropriations were charged with \$2,733,000 during the year, an increase of \$586,000 or 27% over the preceding year, due mainly to an increase in publishing activities. Included in the costs of printing and binding official documents are expenditures of \$80,000 to cover the cost of documents which were distributed free to Members

of Parliament and to organizations approved by the Governor in Council. The gross revenue of \$1,961,000 is an increase of \$97,000 over the previous year due principally to increased sales to the general public.

The Queen's Printer has been provided with a revolving fund to facilitate payment for the printing of publications by commercial printers. This fund, which is not to exceed \$250,000 at any time, is reimbursed by the departments for which the printing is being done. Transactions during the year involved payments of \$657,000 and receipts of \$461,000. Accounts receivable at March 31, 1965 amounted to \$196,000, all of which have since been paid.

The sales operation of the Department is handled by a mail order office located in Hull, Que. and by six government bookstores operating in various cities in Canada. The first bookstore was opened in Ottawa on March 23, 1960. Other stores were later opened in the following cities: Toronto (April 6, 1961), Montreal (March 29, 1962), Winnipeg (January 15, 1965) and Vancouver (March 23, 1965). The bookstore located in the National Gallery at Ottawa was taken over by the Department on April 1, 1961.

The inventories of publications held at the government bookstores at March 31, 1965 were estimated at \$264,000 on a retail value basis. Departmental attempts to reconcile the value of the publications in each store with the memorandum control account maintained at headquarters reveal that present controls are inadequate and would neither prevent nor detect accounting errors and theft of books. A review of departmental inventory audits has disclosed substantial overages and shortages of physical stocks each year. No remedial action has been taken in most instances, except to adjust the headquarters' memorandum control account in order to reflect the physical counts made at the bookstores during the audit. There is no dollar value inventory control account for publications maintained at the bookstores.

To correct this situation the bookstores must be brought under proper control and the managers held responsible for discrepancies. Our views regarding this unsatisfactory situation have been made known to the Department.

Shipments to bookstores originate in the bulk store located in the Printing Bureau in Hull, Que. The warehousing function of the bulk store has been under the control and supervision of the Canadian Government Supply Service of the Department of Defence Production since the early part of 1965. Because of the quantity and the substantial dollar value involved, immediate attention should be given to instituting proper control procedures.

In addition to the stock held in the bulk store and at the bookstores, quantities of publications are held on a consignment basis for various international organizations of which Canada is a member nation. No inventory control records have been established and as a result the current value of stock on consignment is not known. The Treasury Board on June 3, 1965 agreed to the Queen's Printer's proposal that purchases of publications and related material from the United Nations, UNESCO, and the International Atomic Energy Agency for re-sale in the government bookstores should be paid for through "firm accounts" in place of consignment accounts with these organizations.



221. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Transactions in gold, silver and other metals acquired by the Mint for its operations are recorded in revolving fund accounts. The following is a summary of these accounts for the year in comparison with corresponding amounts for the preceding year:

	Year ended March 31	
	1965	1964
Inventories at beginning of year.....	\$ 29,401,000	\$ 27,212,000
Purchases—		
Gold.....	102,005,000	98,296,000
Silver.....	12,777,000	14,782,000
Other metals.....	3,487,000	1,675,000
	<u>118,269,000</u>	<u>114,753,000</u>
	147,670,000	141,965,000
Sales—		
Gold.....	104,825,000	96,072,000
Silver coin at face value.....	27,369,000	20,176,000
Other coin at face value.....	8,629,000	5,513,000
Silver bullion.....	57,000	86,000
Sundry.....	—	17,000
	<u>140,880,000</u>	<u>121,864,000</u>
Gold revaluation.....	11,000	1,000
	<u>140,891,000</u>	<u>121,865,000</u>
	6,779,000	20,100,000
Transfers to revenue—		
Gain on coinage operations.....	11,909,000	9,276,000
Gold refining gain.....	16,000	25,000
	<u>11,925,000</u>	<u>9,301,000</u>
Inventories at end of year.....	\$ 18,704,000	\$ 29,401,000

The Public Accounts record as revenue of the Department of Finance the transfer of \$11,925,000 from the revolving fund accounts and other Mint revenue of \$3,107,000, a total of \$15,032,000 for the year ended March 31, 1965 compared with \$10,624,000 for 1963-64. Offset against this are expenditures charged to parliamentary appropriations under the Department of Finance totalling \$2,662,000, comprising the following: administration, operation and maintenance, \$2,572,000 (\$2,192,000 in 1963-64); and construction or acquisition of equipment, \$90,000 (\$419,000 in 1963-64).

The net result is an excess of revenue over expenditure for the year 1964-65 of \$12,370,000 compared with \$8,013,000 for 1963-64, an increase of \$4,357,000. These recorded results do not, however, take into consideration such expenses as interest on

funds employed or services provided without charge by other departments such as accommodation, security, contributions to the Public Service Superannuation Account, employees' surgical-medical insurance premiums, accounting and cheque issue services, and employee compensation payments.

During the year the gain on coinage operations increased by \$2,633,000 over the comparable figure for the previous year due to an increase of 217,397,779 in the number of coins issued, from 435,568,416 to 652,966,195 pieces, while sundry revenue decreased by \$51,000. Service fees increased by \$1,826,000 largely as a result of the greater number of uncirculated coin sets sold and an increase, effective January 1, 1965, in the selling price from \$3 to \$4 a set.

### Special Audits and Examinations

222. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes: The Army Benevolent Fund Board, Atlantic Development Board, The Canada Council, the Custodian, Economic Council of Canada, Exchange Fund Account, Municipal Development and Loan Board, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Roosevelt Campobello International Park Commission, Royal Canadian Mint stocks, Unemployment Insurance Fund and Yukon Territorial Government.

223. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, R.S., c. 10, and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid:

to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

- (a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];
- (b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;
- (c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing and
- (d) amounts paid out of the Fund are not recoverable, unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1965 pursuant to section 11 of the Act and the audit report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to \$222,000 of which \$210,000 was derived from interest on deposits with the Receiver General and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$451,000 consisting of \$351,000 in grants to or on behalf of World War II veterans and \$100,000 for service and administrative expenses. The latter amount was after deducting a grant of \$18,000 from the Department of Veterans Affairs and a fee of \$34,000 received from the Canadian Army Welfare Fund for managing the financial program of that Fund.

After absorbing the excess of disbursements over receipts in the amount of \$229,000, the Fund amounted to \$5,552,000 at March 31, 1965 of which \$5,291,000 was on deposit with the Receiver General, \$256,000 was invested in Government of Canada bonds and \$5,000 was in the form of accountable advances and prepaid expenses.

*224. Atlantic Development Board.* This Board was established by the Atlantic Development Board Act, 1962-63, c. 10. The objects of the Board are to inquire into and report to the responsible Minister upon programs and projects for fostering the economic growth and development of the Atlantic region of Canada, to consider, report and make recommendations to the Minister concerning programs and projects and, with the approval of the Governor in Council, to enter into agreements respecting the use of the Atlantic Development Fund in financing or assisting in financing, to a maximum of \$100 million, projects that will contribute to the growth and development of the economy of the Atlantic region and for which satisfactory financing arrangements are not otherwise available. The Atlantic Development Fund, established by section 16 of the Act, is a special account in the Consolidated Revenue Fund to which are credited such amounts as are from time to time required by the Board for the carrying out of its programs and projects and to which are charged the payments made in respect of them.

The following is a summary of the transactions in the Fund showing the projects approved and funds disbursed as at March 31, 1965:

Types of projects	Approved by the Governor in Council	Funds disbursed	Outstanding commitments
Power.....	\$ 44,000,000	\$ 1,648,000	\$ 42,352,000
Trunk highway systems.....	9,000,000	1,762,000	7,238,000
Basic industrial services.....	1,660,000	232,000	1,428,000
Research facilities.....	3,000,000	—	3,000,000
	<u>\$ 57,660,000</u>	<u>\$ 3,642,000</u>	<u>\$ 51,018,000</u>

The Board's administrative expenses and expenditures on technical and economic surveys and studies for the year ended March 31, 1965 were financed by parliamentary appropriations of the Department of the Secretary of State (Votes 20 and 20d). Accom-



modation and accounting services were provided without charge by government departments. The following is a comparative summary of expenditures for the past two years:

	Year ended March 31	
	1965	1964
Administrative expenses—		
Salaries.....	\$ 100,000	\$ 66,000
Employee benefits.....	6,000	4,000
Travel and removal.....	17,000	14,000
Accommodation.....	15,000	14,000
Accounting services.....	8,000	6,000
Other.....	10,000	8,000
	156,000	112,000
Technical and economic surveys and studies.....	519,000	105,000
Total expenditure.....	\$ 675,000	\$ 217,000

225. *The Canada Council.* The Council was established by the Canada Council Act, 1957, c. 3, to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

A report on the audit of the Council's accounts for the year ended March 31, 1965 was made to the Council and to the Secretary of State, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act (except for capital assistance grants to universities in respect of building construction projects which are made from the University Capital Grants Fund). Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the Endowment Fund operations for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1965	1964
Surplus at April 1.....	\$ 82,000	\$ 83,000
Income—interest and dividends.....	3,154,000	3,086,000
	3,236,000	3,169,000
Expenditure—		
Grants.....	2,661,000	2,586,000
Canadian National Commission for UNESCO.....	88,000	82,000
Administrative and other expenses, less expenses recovered....	437,000	419,000
	3,186,000	3,087,000
Surplus at March 31.....	\$ 50,000	\$ 82,000

A University Capital Grants Fund of \$50 million was established by the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants are paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1965	1964
Balance at April 1.....	\$ 11,499,000	\$ 25,944,000
Add:		
Interest earned on investments.....	790,000	1,111,000
Net profit on disposal of securities.....	95,000	270,000
	<u>12,384,000</u>	<u>27,325,000</u>
Deduct:		
Authorized grants.....	2,085,000	15,826,000
Balance at March 31.....	<u>\$ 10,299,000</u>	<u>\$ 11,499,000</u>

During the year ended March 31, 1964 the Council allocated to qualifying institutions the amount of \$15,130,000 which represented the accumulated interest and profits earned by the University Capital Grants Fund from its inception to September 30, 1963. Grants authorized by the Council from this allocation totalled \$7,040,000 during 1963-64 and further grants amounting to \$1,440,000 were authorized during 1964-65. A total of \$5,552,000 has been paid in respect of grants from interest and profits to March 31, 1965. No allocation of interest and profits was made during the year.

In our 1964 Report (paragraph 174) reference was made to the method employed in the allocation of the interest and profits, to the qualification of our report to the Council and to the Secretary of State for the year ended March 31, 1964, and to the Sixth Report 1964 of the Public Accounts Committee wherein it was recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund (see Appendix 1, item 30). We remain of the opinion that the method of allocation used by the Council is not in accordance with section 17(2) of the Canada Council Act, and our report to the Council and to the Secretary of State for the year ended March 31, 1965 was again qualified to that extent.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. Moneys or property received by the Council pursuant to this section are accounted for within a separate balance sheet designated "Special Funds". This balance sheet has two sections, the first of which records the receipt and disbursement of comparatively small gifts which

are accounted for within the Endowment Fund, while the second section relates to the following Funds from which only the income may be disbursed for the purposes designated:

1. The amount of \$1,079,000 received in March 1963 in connection with an anonymous gift of \$1,250,000 to be paid to the Council over a period of several years was augmented by an additional \$131,000 received in April 1964. The income from the amounts received is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada.
2. A gift of \$600,000 received from the Molson Foundation in 1963 to establish a capital fund referred to as the Molson Prize Fund the income from which is to be used for making cash awards of \$15,000, normally two in each year, to authors or creators of works or to persons who have rendered service to Canada in the fields of the arts, humanities and social sciences which will enrich the cultural or intellectual heritage of the nation, or make a noteworthy contribution to understanding and unity among Canadians of French and English descent.

For investment purposes the two funds have been combined and are represented by one portfolio. The income of \$106,000 produced by the investments was allocated to the two funds according to the ratio which each fund bore to the total principal and surplus of the funds as at April 1, 1964. A summary for the year follows:

	Special Scholarship Fund	Molson Prize Fund	Total
Surplus at April 1, 1964.....	\$ 3,000	\$ 1,000	\$ 4,000
Income—interest and dividends.....	71,000	35,000	106,000
	<u>74,000</u>	<u>36,000</u>	<u>110,000</u>
Expenditure—			
Grants and awards.....	66,000	15,000	81,000
Administration charge.....	2,000	2,000	4,000
	<u>68,000</u>	<u>17,000</u>	<u>85,000</u>
Surplus at March 31, 1965.....	<u>\$ 6,000</u>	<u>\$ 19,000</u>	<u>\$ 25,000</u>

The expenditure of \$15,000 under the Molson Prize Fund represents the payment of the second instalments of two awards made in the preceding year. No awards were made from this fund during the year. The Council approved the assessing of an administration fee of \$2,000, for the financial year ended March 31, 1965, against the income of each of the Special Funds to cover the expenses of administering them.

Appropriation Act No. 2, 1965, assented to on April 3, 1965, included provision in Vote 18d of the appropriations for the Department of the Secretary of State for a special grant of \$10 million to the Canada Council to be used for the general purposes set out



in section 8 of the Canada Council Act. The grant was received by the Council after the close of its financial year on March 31, 1965 and consequently is recorded as a receipt in the 1965-66 accounts of the Council.

226. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Effective from May 15, 1964, the Deputy Registrar of Canada acts as the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1964 was made to the Secretary of State.

The assets vested in the Custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$771,000 to \$3,080,000 at December 31, 1964. A transfer of \$350,000 to the Minister of Finance for the War Claims Fund, and releases of assets valued at \$874,000 to former owners or their beneficiaries or other rightful claimants, offset in part by an appreciation of \$474,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations referred to above, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

All fees and any income received from vested assets which consist of, or are converted into, cash or Government of Canada bonds are credited to the Custodian's Office Administration Account, from which all expenses of the Office are paid. Since becoming responsible for the audit of the Custodian's accounts in 1947, this Office has repeatedly drawn attention to this procedure because it is one which is not consistent with the treatment of income arising from other assets vested in the Custodian.

From September 2, 1939 to December 31, 1964 the Custodian has accumulated a surplus of \$4,700,000—largely invested in Government of Canada bonds—in his Office Administration Account. On September 22, 1965 we suggested to the Deputy Minister of Finance that consideration be given to whether the surplus cash resources being managed by the Custodian should be transferred to the Consolidated Revenue Fund, with the Custodian's administrative expenses being provided in future by parliamentary appropriation. Consideration was also invited to whether the other cash resources might be managed more effectively if they were held in an open account in the Consolidated Revenue Fund. We were informed that the suggestions would be examined.

The following is a summary of the income and expense of the Custodian for the year together with comparable figures for the preceding year:

	Year ended December 31	
	1964	1963
Income—		
Fees on assets released from administration.....	\$ 10,000	\$ 9,000
Interest on investments.....	206,000	199,000
Interest on bank deposits.....	9,000	16,000
	<u>225,000</u>	<u>224,000</u>
Expense—		
Salaries.....	81,000	108,000
Ex gratia payment.....	5,000	—
Other expense.....	12,000	11,000
	<u>98,000</u>	<u>119,000</u>
Surplus.....	<u>\$ 127,000</u>	<u>\$ 105,000</u>

The income from fees on assets released from administration did not increase proportionately with the value of assets released during the year, due to a comparatively large settlement having been made without fee. The increase in interest on investments was due mainly to an increase of \$11,000 in net discounts on purchases and sales of bonds offset by a reduction in interest earned for the year, whereas the decrease in bank interest resulted from the outflow of cash from among the vested assets as releases of assets from administration were effected. The decrease in salary costs resulted mainly from staff reductions that had been effected during the prior year. The ex gratia payment was made by Executive order, on the recommendation of the Department of External Affairs, to the widow of a former diplomatic representative to Canada whose assets of like value had been seized by the Custodian, liquidated, and the proceeds transferred to the Minister of Finance for credit to the War Claims Fund.

227. *Economic Council of Canada.* The Council, with headquarters in Ottawa, was established by the Economic Council of Canada Act, 1963, c. 11, to advise how Canada can achieve the highest possible levels of employment and efficient production. At March 31, 1965, the Council comprised a chairman, two directors and twenty-five other members broadly representative of different sectors and groups in the Canadian economy.

Pursuant to section 20 of the Act, we have audited the accounts and financial transactions of the Council and have reported thereon, under date of June 11, 1965, to the Council and the Secretary of State.

The following is a summary of the expenses of the Council for its first full year of operation ending March 31, 1965:

Salaries.....	\$ 643,000
Professional and special services.....	68,000
Travel.....	66,000
Rent.....	63,000
Contributions to Public Service Superannuation Account and employee insurance..	41,000
Stationery, supplies, telephone.....	36,000
Other.....	30,000
	<hr/>
	\$ 947,000
	<hr/>

Of the total expense of \$947,000, an amount of \$834,000 was provided by Privy Council Vote 35 and \$113,000 was the estimated value of major services provided without charge by government departments.

228. *Exchange Fund Account.* The Exchange Fund Account, which was originally established by the Exchange Fund Act, 1935, c.60, "to aid in the control and protection of the external value of the Canadian monetary unit", and continued by the Foreign Exchange Control Act, 1946, c.53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c.315.

Pursuant to section 27 of the Currency, Mint and Exchange Fund Act we have audited the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1964, and have addressed a report thereon to the Minister of Finance. This section also requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and the records of the Account show truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the last two years:

	Year ended December 31	
	1964	1963
Balance at January 1.....	\$ 2,751,594,000	\$2,686,227,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of previous year's earnings.....	62,594,000	35,227,000
	<hr/>	<hr/>
	2,689,000,000	2,651,000,000
Add:		
Advances (net).....	48,000,000	38,000,000
Earnings on investments (to be paid into the Consolidated Revenue Fund).....	63,552,000	62,594,000
	<hr/>	<hr/>
Balance at December 31.....	\$ 2,800,552,000	\$ 2,751,594,000
	<hr/>	<hr/>



	Year ended December 31	
	1964	1963
Represented by:		
Canadian dollars.....	\$ 1,241,000	\$ 78,000
United States dollars and securities.....	1,705,869,000	1,898,188,000
International Monetary Fund note.....	16,236,000	—
Gold.....	1,108,876,000	883,500,000
Suspense account.....	62,000	110,000
	<hr/> 2,832,284,000	<hr/> 2,781,876,000
Surplus.....	31,732,000	30,282,000
	<hr/> \$ 2,800,552,000	<hr/> \$ 2,751,594,000

The United States dollar holdings were valued at \$1.08108 (par) at December 31, 1964 and as a result the surplus was \$19,195,000 greater than if the closing market rate of \$1.07375 had been used.

In our 1964 Report we referred to our previous recommendation with respect to the Exchange Fund Account and to the statement of the Minister of Finance to the Public Accounts Committee on July 21, 1964. The Public Accounts Committee made the following recommendation (Appendix 1, item 23) in its Sixth Report 1964:

The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund.

The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

Parliamentary authority to transfer to the Consolidated Revenue Fund the net profit arising from trading operations and investment, as described in the Committee's Sixth Report 1964 referred to above, was not obtained during the year and accordingly

the net profit on these transactions in 1964 is reflected in the surplus of the Account which increased by \$1,450,000 from \$30,282,000 at December 31, 1963 to \$31,732,000 at December 31, 1964.

229. *Municipal Development and Loan Board.* This Board was established by the Municipal Development and Loan Act, 1963, c.13. The purpose of the Act is to promote increased employment in Canada through financial assistance by way of loans to municipalities to augment or accelerate municipal capital works programs. The Board may not accept applications for or approve loans after March 31, 1966, and the total amount of all loans approved is limited to \$400 million.

The Act requires the Board to forgive payment of 25% of the principal amount of the loan where the municipal project is completed to the satisfaction of the Board on or before March 31, 1966 and 25% of the portion of the loan advanced at that date if the project is not completed.

Loan applications by municipalities require provincial approval. Four provinces, Quebec, Ontario, Manitoba and Saskatchewan, have entered into agreements with the Board, as provided in the Act, for provincial administration of programs. In these cases loans are made by the Board to the provinces to enable them to make loans to municipalities in respect of municipal projects under the same terms and conditions as apply in the case of loans made by the Board directly to municipalities.

Funds for the Board's 1964-65 administrative expenses were provided by a parliamentary appropriation (Department of Finance Vote 45). Expenses for the year amounted to \$145,000 compared with \$60,000 for seven months in the previous year.

As at March 31, 1965, 1,323 loans to provinces and municipalities amounting to \$242,607,000 had been approved by the Board. Loans disbursed totalled \$10,183,000 of which \$708,000, being 25% of the loans against 69 completed projects, had been forgiven pursuant to section 11 of the Act. Outstanding loan commitments at March 31, 1965 amounted to \$232,424,000.

Section 12 of the Municipal Development and Loan Act provides that the Governor in Council, on the recommendation of the Minister of Finance, may from time to time prescribe the rate of interest to apply in respect of loans under the Act. Such interest is payable directly to the Department of Finance. Section 9(2) stipulates that it shall be a condition of any loan to a municipality in respect of a municipal project that the debentures to be issued to the Board by the municipality in respect of the municipal project will bear interest at the rate applying pursuant to section 12 on the date the loan is approved by the Board.

Although an interest rate of  $5\frac{3}{8}\%$  was prescribed by Order in Council P.C. 1963-1918 of December 27, 1963 for the period January 1 to March 31, 1964, 21 loans totalling \$2,404,000 were approved during this period with an interest rate of  $5\frac{1}{4}\%$  (the rate in effect prior to January 1). This was in accordance with a decision of the Board on December 18, 1963 in respect of loans in process when there is a change in the interest rate. With reference to the four provinces with agreements for provincial administration, it was decided that the Board would accept loan applications at the former rate, up to several days after the

interest rate changes, provided the province's commitment to the municipality was made in the previous quarter. With reference to loan applications from the six provinces without agreements, it was decided that the interest rate would be the rate in effect at the time an acceptable application was received by the Board. However, when the interest rate was reduced from  $5\frac{3}{8}\%$  to  $5\frac{1}{4}\%$  on January 1, 1965, the statutory provision was applied to loans for which applications had been received prior to January 1.

230. *National Gallery of Canada.* The Gallery was incorporated under the National Gallery Act, R.S., c. 186. Its objects and powers comprise the development, maintenance, care and management of the National Gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

Pursuant to section 9 of the National Gallery Act, the accounts for the year were examined and a report was addressed to the Secretary of State.

The following is a comparative summary of expenditure for the past two years:

	Year ended March 31	
	1965	1964
Administration, operation and maintenance—		
Salaries and wages.....	\$ 393,000	\$ 351,000
Accommodation.....	427,000	502,000
Protective and other special services.....	200,000	185,000
Other.....	516,000	334,000
	<u>1,536,000</u>	<u>1,372,000</u>
Purchases of works of art.....	192,000	323,000
	<u>\$ 1,728,000</u>	<u>\$ 1,695,000</u>

The operating expenses of the National Gallery are met largely from parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the National Gallery Special Operating Account are also used to acquire works of art and \$2,000 was expended for this purpose in 1965.

As stated in our Reports for the last three years, parliamentary control may be weakened by the supplementing of specific appropriations by expenditures from the National Gallery Special Operating Account, and by crediting to the Special Operating Account fees from exhibitions and lectures, proceeds from the sale of slides and photographs, and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.



231. *Public Printing and Stationery stores.* Section 34(2) of the Public Printing and Stationery Act, R.S., c. 226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year, as in prior years, such tests were made as we considered necessary to establish that the controls were operating satisfactorily. In addition, we participated in the physical inventory checking by departmental personnel. A report on the examinations was made to the Minister of Defence Production (see paragraph 219).

At March 31, 1965 the inventories of stationery, printing materials and supplies held by the Department totalled \$2,900,000. A comparison with those at the end of the preceding year is as follows:

	March 31	
	1965	1964
Printing materials and supplies		
Paper.....	\$ 491,000	\$ 468,000
Printing supplies .....	277,000	258,000
Maintenance stores.....	158,000	165,000
Printing sub-stores—Main Plant.....	124,000	110,000
Miscellaneous.....	42,000	41,000
	<u>1,092,000</u>	<u>1,042,000</u>
Work in process.....	858,000	874,000
Stationery, office equipment and parts		
Stationery stores.....	804,000	471,000
Typewriters and office machine parts.....	146,000	154,000
Miscellaneous.....	—	6,000
	<u>950,000</u>	<u>631,000</u>
	<u>\$ 2,900,000</u>	<u>\$ 2,547,000</u>

232. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six members is responsible for the management and administration of the Fund. As required by the Act, the National Research Council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose head office is in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1965, which contained no qualification, was made to the Board and to the Prime Minister as required by the Act.

The Act provided \$1 million for the Fund and also permits the Board to accept gifts for its purposes. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1965	1964
Balance at April 1.....	\$ 1,076,000	\$ 1,049,000
Earnings on investments.....	58,000	58,000
Gifts.....	—	1,000
	<u>58,000</u>	<u>59,000</u>
	1,134,000	1,108,000
Awards approved during year.....	78,000	32,000
Less: Cancellation of award approved in preceding year.....	4,000	—
	<u>74,000</u>	<u>32,000</u>
Balance at March 31.....	<u>\$ 1,060,000</u>	<u>\$ 1,076,000</u>

Two categories of awards have been approved by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. During the year the maximum stipend was increased from \$5,000 to \$6,000 per annum, with the basic stipend remaining at \$3,500 per annum. In addition, where applicable, a Fellow may receive a children's allowance and a travel grant. Two new and three renewal Fellowships totalling \$27,200 were awarded during the year. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 per annum for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. One such appointment was made during the year and provision for the \$45,000 which it is expected will be ultimately expended was made in the Fund's accounts. The Fund continues to support three appointees of prior years and the outstanding liability of \$40,000 in this connection was included in the total provision of \$116,000 for awards approved, appearing in the Balance Sheet of the Fund at March 31, 1965.

233. *Roosevelt Campobello International Park Commission.* The Roosevelt Campobello International Park had its origin in the donation of the Roosevelt cottage and surrounding grounds on Campobello Island, New Brunswick, to Canada and the United States of America as a memorial to President Franklin Delano Roosevelt. Subsequent negotiations between the two countries culminated in a joint agreement of acceptance being signed on January 22, 1964. Establishment of the Commission was followed by the enactment in each country of the required legislation, the Roosevelt Campobello International Park Com-

mission Act (1964-65, c. 19) being assented to in Canada on June 30, 1964 and proclaimed on August 14, 1964. The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

As auditor appointed by resolution at a meeting of the Commission in February 1965, we examined the accounts of the Commission and reported thereon on June 29, 1965.

For the period from its establishment on August 14, 1964 to March 31, 1965, expenses, mainly comprising salaries and wages, aggregated \$13,000. The operating expenses of the Commission are recoverable in equal shares from the Governments of Canada and the United States of America. During the initial period of organization funds to finance the Commission were advanced by the Department of External Affairs of Canada and the Province of New Brunswick.

234. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of, and are examined with, departmental revenue and expenditure. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315, requires that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". We inspected these stores as at January 31, 1965 and reported thereon to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at January 31, 1965 amounted to \$16,946,000 comprising: gold \$2,812,000, silver \$13,272,000, bronze \$723,000, nickel \$93,000, and other metals \$46,000.

235. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1955, c. 50 (superseding 1940, c. 44) provides for insurance against unemployment and for the maintenance of a national employment service. To the end of 1964-65, the Act was wholly administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. With effect from April 1, 1965, the powers, duties and functions of the Commission relating to the national employment service were transferred to the Department of Labour under authority delegated to the Governor in Council by Department of Labour Vote 7a of Appropriation Act No. 10, 1964.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers and federal government contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, are credited, and to which benefits and other payments under the Act are charged.

Financial statements showing the state of the Fund at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Commission. In our 1960 and subsequent Reports attention was drawn to the fact that the Act does not require that these financial statements be audited. The Public Accounts Committee made reference to this in its Fifth Report 1961, Fourth Report 1963 and Fourth Report 1964 (see Appendix 1, item 11) recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended, the Commission has submitted its financial statements for the



past four years to the Audit Office for examination, and the statements for the year ended March 31, 1965, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 22.22 to 22.24.

The following is a comparative summary of the Fund's transactions for the past three years, together with the year-end balances at the credit of the Fund:

	1962-63	1963-64	1964-65
Receipts—			
Contributions from employers and employees.....	\$ 286,430,000	\$ 296,586,000	\$ 310,751,000
Contributions from Government of Canada.....	57,286,000	59,317,000	62,150,000
Other income.....	2,570,000	1,172,000	1,914,000
	<u>346,286,000</u>	<u>357,075,000</u>	<u>374,815,000</u>
Disbursements—			
Benefit payments.....	403,191,000	365,655,000	335,030,000
Interest on advances.....	—	238,000	163,000
	<u>403,191,000</u>	<u>365,893,000</u>	<u>335,193,000</u>
Excess of disbursements over receipts.....	\$ 56,905,000	\$ 8,818,000	
Excess of receipts over disbursements.....			\$ 39,622,000
Balance at credit of the Fund.....	\$ 9,693,000	\$ 875,000	\$ 40,497,000

The annual disbursements shown above do not include the administrative expenses of the Commission which are financed out of parliamentary appropriations for the Commission (Department of Labour Vote 30) in accordance with section 10 of the Act. These expenses amounted to \$54,254,000 in 1964-65 compared with \$48,684,000 for the preceding year. Also not included are: the value of accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation Account, accounting services provided by the Comptroller of the Treasury and other services provided by government departments, all of which were estimated at \$10,410,000 for 1964-65 as against \$10,034,000 for 1963-64.

The increase of \$5,570,000 in administrative expenses in the year was largely accounted for by increases in salaries and wages of \$4,504,000, publicity \$281,000, postage \$221,000, office supplies \$186,000, and communication services \$163,000. Costs associated with a new program of registration of employees begun during 1963-64 to replace an inadequate system of numbering persons insured under the Unemployment Insurance Act and designed, as well, to serve the needs of the Canada Pension Plan, accounted for \$617,000 of the increase in salaries and wages, \$263,000 of the increase in publicity costs and \$299,000 of the increases in other costs. The increase in salaries and wages, other than that attributable to the registration program, resulted from an increase of almost 400 in full-time staff which took place commencing in the latter part of 1963-64 following relaxation of the restriction imposed on staff hiring, and from a general salary increase granted in 1964-65 which was retroactive to the preceding fiscal year. The increase in postage is largely the result of the gradual extension of the system of paying benefits by mail.

The new registration program which has cost \$1,966,000 to March 31, 1965 will be virtually completed by the end of 1965-66. Because early adoption of a Canada Pension Plan appeared imminent, the Commission, in conjunction with its program of assigning new numbers to all employees insured under the Act, was requested to solicit the registration of non-insured persons as well. The cost of processing these additional registrations, together with the extra publicity costs arising out of the need to acquaint this segment of the public with the program, has resulted in costs being charged to the Unemployment Insurance Commission appropriation for administrative expenses in excess of those required to carry out the purposes of the Unemployment Insurance Act.

Reference is made in paragraph 72 of this Report to the regional payment centre established in Winnipeg during the year which, with the use of electronic data processing equipment, was to handle payment of unemployment insurance benefits for the Prairie Region. The installation was not a success and was abandoned in June 1965.

In 1964-65 receipts of the Unemployment Insurance Fund exceeded disbursements, marking a reversal in the series of annual deficits that have occurred in the seven preceding fiscal years. The surplus in the year's operations amounted to \$39,622,000 compared with deficits of \$8,818,000 in 1963-64 and \$56,905,000 in 1962-63. This substantial improvement, which is a continuation of an upward trend which commenced in 1961-62, is attributable to fewer benefit payments and shorter benefit periods although there has been a slight increase in the average weekly benefit paid in each year. Comparisons follow:

	1962-63	1963-64	1964-65
Average monthly percentage of the insured population drawing benefit.....	8.1%	7.2%	6.1%
Number of initial benefit claims allowed.....	1,292,476	1,197,421	1,135,931
Average number of benefit weeks paid.....	13.4	13.1	13.0
Average weekly benefit rate paid.....	\$ 24.27	\$ 24.49	\$ 24.55

For the second successive year there was an occasion during the year when the resources of the Fund were exhausted. When this happened the amounts required to discharge the Fund's liabilities were obtained by Government of Canada loans which were authorized to a maximum of \$55,000,000 by Appropriation Act No. 2, 1964 (Department of Labour Vote L27e). Borrowings reached a maximum of \$26,500,000 on May 29, 1964 and were fully repaid by July 17, 1964.

All security transactions of the Fund in the year were in a special Government of Canada issue which is redeemable at par subject to 30 days' prior notice, and thus no gains or losses on sales were incurred.

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Prompt attention was given to all audit observations raised and corrective action was taken where called for. Our examinations are designed primarily to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the pro-

visions of the Act and regulations is also tested. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff.

No attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's internal audit division.

236. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the government of the Territory in those fields normally within provincial jurisdiction.

The accounts relating to the receipt and expenditure of territorial funds and of money appropriated by Parliament for the Territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the Act. There is no requirement for the preparation of annual financial statements, nor for their certification by the Auditor General as the statutory auditor, but the Department of Northern Affairs and National Resources has advised that it proposes to recommend amending legislation to rectify this. Pending the enactment of such legislation, the Commissioner has submitted for audit examination the annual financial statements prepared by the Territory for publication in its Public Accounts, and we have agreed to furnish audit certificates with respect to these statements.

The following is a summary of expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1965, with comparable amounts for the preceding fiscal year:

	Year ended March 31	
	1965	1964
Expenditure—		
Education.....	\$ 1,606,000	\$ 1,335,000
Capital projects.....	1,595,000	2,721,000
Roads, bridges and public works.....	1,356,000	1,009,000
Yukon Hospital Insurance Service.....	668,000	684,000
Justice.....	538,000	336,000
Welfare.....	445,000	395,000
Vocational training.....	302,000	230,000
Health.....	301,000	260,000
Municipal and area development.....	290,000	244,000
Loan interest.....	267,000	206,000
Other expenditure.....	669,000	615,000
	<hr/> 8,037,000	<hr/> 8,035,000



	Year ended March 31	
	1965	1964
Revenue—		
Federal grants		
Operating.....	1,868,000	1,609,000
Loan amortization.....	434,000	314,000
	<hr/> 2,302,000	<hr/> 1,923,000
Tax revenue.....	969,000	843,000
Liquor profits.....	884,000	916,000
Licence revenue.....	286,000	271,000
Other revenue.....	316,000	268,000
	<hr/> 4,757,000	<hr/> 4,221,000
Expenditure recoveries—		
Capital projects.....	840,000	1,397,000
Roads, bridges and public works.....	821,000	617,000
Education.....	447,000	514,000
Yukon Hospital Insurance Service.....	439,000	356,000
Other recoveries.....	530,000	497,000
	<hr/> 3,077,000	<hr/> 3,381,000
	<hr/> 7,834,000	<hr/> 7,602,000
Excess of expenditure over revenue.....	<hr/> \$ 203,000	<hr/> \$ 433,000

Loans repayable to the federal Government at the close of the year amounted to \$6,855,000, an increase of \$681,000 over the preceding year's total of \$6,174,000.

Under the federal-territorial financial agreement for the five-year period ending March 31, 1967, Canada agreed to make certain annual payments to the Territory in return for which the Territory agreed to refrain from imposing, levying or collecting individual and corporation income taxes and succession duties. One of the payments for which the agreement provides is an amortization subsidy in respect of outstanding loans. For the year under review an amount of \$434,000 was involved, of which \$225,000 related to interest and \$209,000 was for the purpose of reducing the principal of the loans. A result of this particular annual payment is that the federal Government provides funds to cover the payment of interest to itself and also to repay amounts previously appropriated for the purpose of making the loans to the Territory.

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I should like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

A. M. HENDERSON,  
*Auditor General of Canada.*

November 30, 1965.



## APPENDICES

- Recommendations and Observations by the Standing Committee on Public  
Accounts not yet implemented or dealt with by Executive action..... Appendix 1
- Summary of Employees of the Public Service, by Departments, Crown Corpora-  
tions and Other Instrumentalities authorized and on strength as at March 31,  
1965 (with comparative figures as at March 31, 1964)..... Appendix 2
- Summary of Expenditure by Standard Objects for the fiscal year ended March 31,  
1965 (with comparative figures for the preceding fiscal year)..... Appendix 3



**RECOMMENDATIONS AND OBSERVATIONS BY THE  
STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET  
IMPLEMENTED OR DEALT WITH BY EXECUTIVE ACTION**

**Fourth Report 1963—presented to the House on December 19, 1963**

1. **SECOND CLASS MAIL.** The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it. *See paragraph 105 of this Report.*
2. **DEPARTMENTAL OPERATING ACTIVITIES.** The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course. *See paragraph 211 of this Report.*
3. **INTERNAL FINANCIAL CONTROL.** The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities. *See paragraph 8 of this Report.*
4. **UNEMPLOYMENT ASSISTANCE.** The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field. *See paragraph 87 of this Report.*

**Fourth Report 1964—presented to the House on July 28, 1964**

5. **FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION.** The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as, for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament. *See paragraph 7 of this Report.*

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee had made the following immediate recommendations under paragraph 3:

(a) *Implemented*

(b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.

(c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:

(i) *Implemented*

(ii) brief notes explaining proposed major increases in the size of establishments.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

The Committee also recommended that consideration be given to referring the departmental Estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House. It believed such

a procedure would not only accelerate the work of the House but would contribute materially to improving parliamentary control of public funds before those funds are committed or spent. *See paragraph 9 of this Report.*

7. LIVING ALLOWANCES TO FEDERALLY-APPOINTED JUDGES. In its Fourth Report 1963 the Committee had noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It had therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

The Committee recorded that, despite this recommendation, a case had since been noted where a rate of \$100 a day was approved on May 7, 1964 by the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

The Committee reiterated the recommendation made in its Fourth Report 1963 that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought. *See paragraph 70 of this Report.*

8. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.
9. REMISSION OF SALES TAX ON OLEOMARGARINE. The Committee was concerned to learn that the undertaking given in 1949 that the Government would submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada had not been carried out. Instead, the authority provided to the Executive by section 22 of the Financial Administration Act had been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

The Committee stated that it does not consider that section 22 of the Financial Administration Act should be used in this way.

10. COST OF GASOLINE USED IN DEPARTMENTAL VEHICLES AT OTTAWA. The Committee learned from the Secretary of the Treasury Board that an alternative means of effecting savings in the purchase of gasoline was presently being considered. Having in mind the time which had elapsed since the matter was first taken under consideration, the Committee urged the Secretary of the Treasury Board to have the matter finalized at the earliest possible date. The Committee further requested that the Secretary of the Treasury Board provide it in due course with information as to the final decision in this matter and also as to the various alternatives which were considered and, with respect to those which were rejected, the reasons for such rejection.

The Treasury Board at its meeting on March 31, 1965 approved implementation of a national credit card system for Crown-owned vehicles operated by civilian Government departments and for which gasoline is now purchased from service stations. Department



of Public Works' vehicles maintaining the Northwest Highway system were not included. In order to permit implementation of the scheme the Board authorized the Department of Defence Production to enter into formal agreements with certain suppliers who had offered attractive discounts which it was estimated would result in annual savings of \$158,000.

Some of the agreements have been entered into but as of October 31, 1965 no credit cards had been issued.

11. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General. *See paragraph 235 of this Report.*

12. BOARD OF GRAIN COMMISSIONERS. In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditure of this activity had exceeded its revenue by more than \$1 million and it requested the Auditor General to keep this matter under review and report thereon to the Committee in due course.

Expenditures of the Board, including the estimated cost of \$294,000 for services provided without charge by other government departments, exceeded revenues by \$1,823,000 for the year ended March 31, 1965.

Effective August 1, 1965 the fees charged by the Board for inspection and weighing services have been increased by 50%. Had the increased rates been in effect throughout the year ended March 31, 1965, the Board's revenues would have been \$1,760,000 greater. *See paragraph 215 of this Report.*

13. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

The Committee believes that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and Crown corporations generally. The Auditor General informed the Committee that the recruitment outlook was currently satisfactory and that, barring any unforeseen developments, he believed that he could fill his presently approved staff establishment under existing arrangements by the end of the year. The Committee therefore asked him to render a further report on this situation in due course.

The Committee noted that amendments to the Financial Administration Act were to be introduced in due course and believed appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office. *See paragraph 11 of this Report.*

**Fifth Report 1964—presented to the House on August 5, 1964**  
**Canadian Broadcasting Corporation**

14. REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House. *See paragraph 187 of this Report.*

**Sixth Report 1964—presented to the House on October 20, 1964**

15. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop. *See paragraph 73 of this Report.*
16. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.
17. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town.
18. EDUCATIONAL COSTS INCURRED BY THE DEPARTMENT OF NATIONAL DEFENCE. The Committee requested the Auditor General to follow this matter up to determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate.
19. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.
20. PENSION AWARDS EFFECTIVE AT EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages. *See paragraph 84 of this Report.*
21. DISCRETIONARY AWARDS OF SERVICE PENSIONS. The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible,

would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system. *See paragraph 85 of this Report.*

22. OVERLAPPING OF PENSION BENEFITS. The Committee was pleased to hear from the Deputy Minister of National Defence that it is his intention when the Canadian Forces Superannuation Act is to be amended to bring this matter to the attention of the Ministers with a view to preventing future incidents of this kind. The Committee requested the Auditor General to keep it informed as to progress made.
23. ADVANCES TO THE EXCHANGE FUND ACCOUNT. The Committee recommended that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the surplus of \$30.3 million at December 31, 1963 and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account. *See paragraph 228 of this Report.*
24. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed. *See paragraph 64 of this Report.*
25. PENSION INCREASED BY PAYMENT OF TWO SALARIES. The Committee stated it expects to see suitable amending legislation introduced in due course to protect the Public Service Superannuation Account from excessive annuity charges and requested the Auditor General to keep it fully informed.
26. RECIPROCAL TRANSFER AGREEMENTS FOR SUPERANNUATION BENEFITS. The Committee suggested that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.
27. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. *See paragraphs 167 and 202 of this Report.*



The Deputy Minister of Public Works advised on February 24, 1965 that the National Capital Commission is fully conversant with the various facets of this problem and is awaiting further directions from the Department of Finance in this regard. The Commission understands this recommendation places the initiative for the review on the Department of Finance.

28. **ACCOUNTS RECEIVABLE.** The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced. *See paragraph 168 of this Report.*
29. **INDIRECT COMPENSATION TO CHARTERED BANKS.** The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965. *See paragraph 62 of this Report.*

30. **THE CANADA COUNCIL.** The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund. *See paragraph 225 of this Report.*

#### **Seventh Report 1964—presented to the House on December 7, 1964 Surplus Assets Disposal**

31. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business prac-

tice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

32. While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.
33. The Committee made the following recommendations:
- (1) that every effort be made by the executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department;
  - (2) that effective with the fiscal year 1964-65 the Department of National Defence issue a statement listing or summarizing all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal of this equipment by Crown Assets Disposal Corporation; also the value obtained for other surplus material, etc., declared without value to the Corporation, and that such a statement be placed in the Public Accounts of Canada;
  - (3) that the preparation of a statement similar to the foregoing be made a requirement for each department and agency of the Government declaring material surplus for the purpose of disposing of such material during each fiscal year and that such statements likewise be placed in the Public Accounts of Canada effective with the fiscal year 1964-65; *see paragraph 10 of this Report.*
  - (4) *Implemented*

#### **Eighth Report 1964—presented to the House on December 7, 1964**

34. **HOSPITAL CONSTRUCTION GRANTS.** The Committee stated it shared the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

35. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations (*see paragraph 138 of this Report*) designed to clarify the Act:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

36. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (*see paragraph 139 of this Report*):

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

37. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made the following recommendations (*see paragraph 90 of this Report*):

(a) *Implemented*

(b) Sales of goods unclaimed at Customs—

that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.

(c) *Implemented*

(d) Determination of 'sale price' for sales tax purposes—

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.



38. GENERAL ELECTION EXPENDITURES. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

39. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended (*see paragraph 183 of this Report*):

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
  - (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government acting on the advice of the Auditor General.
40. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. *See paragraph 6 of this Report.*

**SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE,  
BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES**

**Authorized and on Strength as at March 31, 1965  
(with comparative figures as at March 31, 1964)**

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS (Note 1)—						
Agriculture—						
445	457	12	Administration Branch.....	386	419	33
4,403	3,972	(431)	Research Branch.....	3,284	3,301	17
2,123	2,097	(26)	Production and Marketing Branch.....	1,899	1,950	51
1,584	1,662	78	Health of Animals Branch.....	1,414	1,525	111
1,245	1,238	(7)	Prairie Farm Rehabilitation Administration.....	993	991	(2)
55	75	20	Prairie Farm Assistance Administration.....	53	74	21
929	879	(50)	Board of Grain Commissioners.....	817	813	(4)
193	185	(8)	Canadian Government Elevators.....	169	165	(4)
10,977	10,565	(412)		9,015	9,238	223
16	16	—	Atomic Energy Control Board.....	14	16	2
180	221	41	Auditor General's Office.....	160	177	17
40	39	(1)	Board of Broadcast Governors.....	36	36	—
31	20	(11)	Chief Electoral Officer.....	30	20	(10)
Citizenship and Immigration—						
203	221	18	Administration.....	175	189	14
217	213	(4)	Citizenship Branch.....	182	209	27
1,987	2,008	21	Immigration Branch.....	1,726	1,761	35
2,910	3,993	1,083	Indian Affairs Branch.....	2,698	3,856	1,158
5,317	6,435	1,118		4,781	6,015	1,234
The increase in employees authorized and on strength shown for the Indian Affairs Branch is due primarily to casual employees paid from funds provided for departmental projects having been omitted from the 1964 figures.						
Civil Service Commission—						
11	11	—	Commissioners and Staff.....	10	9	(1)
121	134	13	Executive Secretary (Administration and Personnel).....	87	127	40
530	476	(54)	Operations Branch.....	480	488	8
—	145	145	Bureau of Classification and Classification Branch....	—	115	115
89	114	25	Advisory Services and Appeals Branch.....	77	98	21
47	17	(30)	Pay and Standards Branch.....	36	10	(26)
43	39	(4)	Pay Research Bureau.....	44	40	(4)
841	936	95		734	887	153
Defence Production—						
92	12	(80)	Deputy Minister's Office.....	83	10	(73)
672	867	195	Finance and Administration Branches.....	604	759	155
61	155	94	International Programs.....	55	137	82
709	901	192	Operations Branches.....	637	806	169
289	521	232	Canadian Government Supply Branches.....	260	422	162
Directorate of Printing—						
178	160	(18)	Finance and Administration.....	168	149	(19)
814	798	(16)	Production Services (Main Plant).....	720	716	(4)
470	491	21	Production Services (Outside Plants).....	408	444	36
113	111	(2)	Emergency Measures Organization.....	91	85	(6)
106	102	(4)	Emergency Measures College (formerly Civil De- fence College).....	98	101	3
3,504	4,118	614		3,124	3,629	505

## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
External Affairs—						
2,537	2,570	33	External Affairs.....	2,358	2,435	77
110	182	72	External Aid Office.....	98	167	69
12	12	—	International Joint Commission.....	11	11	—
2,659	2,764	105		2,467	2,613	146
Finance—						
328	422	94	Administration.....	286	339	53
Comptroller of the Treasury—						
155	157	2	Headquarters.....	122	135	13
385	402	17	Regional Offices.....	341	401	60
3,302	2,974	(328)	Treasury Offices.....	2,980	2,966	(14)
342	373	31	Audit Services Branch.....	324	330	6
150	118	(32)	Cheque Adjustment Division.....	126	111	(15)
429	427	(2)	Central Services Branch.....	384	417	33
36	31	(5)	Securities Deposit Division.....	26	29	3
321	374	53	Royal Canadian Mint.....	310	362	52
204	203	(1)	Superannuation Branch.....	174	183	9
35	44	9	Tariff Board.....	32	42	10
22	22	—	Guaranteed Loans Division.....	19	19	—
19	—	(19)	Government Switchboard.....	19	—	(19)
4	4	—	Inspector General of Banks.....	4	4	—
10	10	—	Municipal Development and Loan Board.....	7	8	1
5,742	5,561	(181)		5,154	5,346	192
Fisheries—						
91	90	(1)	Administration.....	76	70	(6)
186	192	6	Field Service Administration.....	164	173	9
963	967	4	Conservation and Development Services.....	716	806	90
328	332	4	Inspection Services.....	317	311	(6)
231	259	28	Miscellaneous Services.....	196	224	28
716	770	54	Fisheries Research Board.....	655	644	(11)
2,515	2,610	95		2,124	2,228	104
Forestry—						
192	217	25	Administration Branch.....	167	202	35
476	548	72	Forest Research Branch.....	453	521	68
646	668	22	Forest Entomology and Pathology Branch.....	617	653	36
204	204	—	Forest Products Research Branch.....	187	192	5
64	39	(25)	Maritime Marshland Rehabilitation Administration.....	45	39	(6)
14	26	12	Agricultural Rehabilitation and Development.....	11	22	11
1,596	1,702	106		1,480	1,629	149
17	30	13	Governor General and Lieutenant-Governors.....	16	29	13
Industry—						
142			Administration.....	125		
	13		Minister's Office.....		10	
	14		Deputy Minister's Office.....		14	
	45		Aircraft Branch.....		31	
	43		Area Development Agency.....		33	
	52		Chemicals Branch.....		22	
	38		Clothing and Textiles Branch.....		22	
	69		Electrical and Electronics Branch.....		43	
	53		Food Products Branch.....		21	
	42		Machinery Branch.....		21	
	38		Materials Branch.....		29	
	38		Mechanical Transport Branch.....		16	
	47		National Design Branch.....		20	
	57		Program Advisory Group.....		32	
	35		Shipbuilding Branch.....		19	
	55		Wood Products Branch.....		20	
142	639	497		125	353	228
112	112	—	Insurance.....	100	104	4



## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
Justice—						
356	378	22	Administration.....	318	342	24
144	144	—	National Parole Board.....	111	114	3
3,125	3,699	574	Penitentiaries.....	3,062	3,330	268
3,625	4,221	596		3,491	3,786	295
Labour—						
225	273	48	Administration.....	208	249	41
150	146	(4)	Economics and Research Branch.....	124	128	4
77	57	(20)	Industrial Relations Branch.....	71	53	(18)
15	15	—	Civilian Rehabilitation Branch.....	11	14	3
41	43	2	Special Services Branch.....	37	40	3
12	12	—	Manpower Consultative Service.....	—	8	8
55	56	1	Technical and Vocational Training Assistance Branch.....	36	54	18
173	171	(2)	Annuities Branch.....	160	157	(3)
21	21	—	Accident Prevention and Compensation Branch.....	21	20	(1)
Unemployment Insurance Commission—						
520	630	110	Head Office.....	414	515	101
1,290	1,192	(98)	Atlantic Region.....	1,206	1,124	(82)
3,356	3,174	(182)	Quebec Region.....	3,087	2,928	(159)
3,619	3,469	(150)	Ontario Region.....	3,375	3,185	(190)
1,570	1,526	(44)	Prairie Region.....	1,485	1,434	(51)
1,207	1,188	(19)	Pacific Region.....	1,125	1,098	(27)
12,331	11,973	(358)		11,360	11,007	(353)
Legislation—						
191	204	13	Senate.....	191	191	—
945	978	33	House of Commons.....	945	950	5
61	62	1	Library of Parliament.....	59	60	1
1,197	1,244	47		1,195	1,201	6
Mines and Technical Surveys—						
271	360	89	Administration.....	240	341	101
712	734	22	Surveys and Mapping Branch.....	647	686	39
888	883	(5)	Marine Sciences Branch.....	833	788	(45)
439	457	18	Geological Survey.....	418	443	25
668	647	(21)	Mines Branch.....	604	613	9
91	111	20	Geographical Branch.....	70	90	20
167	179	12	Observatories Branch.....	148	171	23
57	61	4	Polar Continental Shelf Project.....	51	54	3
19	17	(2)	Dominion Coal Board.....	17	17	—
3,312	3,449	137		3,028	3,203	175
National Defence (Civilian Staffs)—						
685	716	31	Departmental Administration.....	590	560	(30)
1,420	1,308	(112)	Inspection Service.....	1,193	1,124	(69)
13,147	12,254	(893)	Royal Canadian Navy.....	11,776	11,085	(691)
18,620	17,731	(889)	Canadian Army.....	16,432	15,207	(1,225)
16,216	15,179	(1,037)	Royal Canadian Air Force.....	14,897	13,858	(1,039)
3,243	2,881	(362)	Defence Research Board.....	2,802	2,625	(177)
53,331	50,069	(3,262)		47,690	44,459	(3,231)
The decreases in employees authorized and on strength at March 31, 1965 result in part from the takeover by the Department of Public Works effective April 1, 1964 of the responsibility for buildings and maintenance at Fort Pepperell (185 positions) and Fort Churchill (478 positions) and for operation and maintenance of the Northwest Highway System (751 positions), a total of 1,414 positions of which 1,174 were filled at the year end.						
69	73	4	National Gallery of Canada.....	55	64	9

## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
380	392	12	National Health and Welfare—			
540	544	4	Departmental Administration.....	335	376	41
3,124	3,399	275	Health Services.....	473	499	26
522	635	113	Medical Services.....	2,748	3,170	422
810	897	87	Food and Drug Services.....	474	599	125
5,376	5,867	491	Welfare Services.....	770	830	60
				4,800	5,474	674
National Research Council, including the Medical Re- search Council—						
1,434	1,394	(40)	Administration and Services.....	1,271	1,322	51
1,952	1,929	(23)	Scientific and Engineering Divisions.....	1,836	1,915	79
6	6	—	Medical Research Council.....	6	6	—
3,392	3,329	(63)		3,113	3,243	130
National Revenue—Customs and Excise—						
658	713	55	General Administration.....	600	656	56
267	312	45	Checking, Refunds and Drawbacks.....	262	285	23
869	1,185	316	Excise Duty and Excise Tax.....	821	1,113	292
150	149	(1)	Customs Inspection and Investigation.....	147	146	(1)
6,365	5,794	(571)	Ports.....	5,855	5,475	(380)
8,309	8,153	(156)		7,685	7,675	(10)
National Revenue—Taxation Division—						
591	622	31	Head Office.....	500	557	57
1,597	2,576	979	Data Centre (Ottawa).....	1,817	2,029	212
6,000	5,649	(351)	District Offices.....	5,478	5,390	(88)
22	22	—	Tax Appeal Board.....	20	21	1
8,210	8,869	659		7,815	7,997	182
Northern Affairs and National Resources—						
213	226	13	Departmental Administration.....	192	208	16
279	277	(2)	Water Resources Branch.....	235	256	21
National Parks Branch—						
56	85	29	Administration.....	46	74	28
2,489	2,476	(13)	Operation and Maintenance of National Parks and Historic Sites and Monuments.....	2,056	2,265	209
111	91	(20)	Canadian Wildlife Services.....	90	79	(11)
Northern Administration Branch—						
196	186	(10)	Administration.....	156	170	14
445	510	65	Education Division.....	450	476	26
165	162	(3)	Welfare and Industrial Division.....	132	132	—
586	663	77	Northwest Territories and Other Field Services..	493	613	120
62	62	—	Yukon Territory.....	45	59	14
4,602	4,738	136		3,895	4,332	437
Post Office—						
1,131	1,019	(112)	Headquarters.....	932	943	11
860	949	89	District Offices.....	856	926	70
581	558	(23)	Railway Mail Service.....	498	444	(54)
26,897	27,919	1,022	Staff Post Offices.....	26,707	27,683	976
29,469	30,445	976		28,993	29,996	1,003
Privy Council—						
126	137	11	Privy Council Office.....	117	116	(1)
7	7	—	Prime Minister's Residence.....	7	6	(1)
133	144	11		124	122	(2)
Public Archives and National Library—						
189	213	24	Public Archives.....	134	180	46
121	159	38	National Library.....	67	104	37
310	372	62		201	284	83

## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
Public Printing and Stationery—						
Publications Branch—						
30	32	2	Departmental Administration.....	28	30	2
159	164	5	Distribution of official documents including print			
189	196	7	procurement.....	139	154	15
				167	184	17
Public Works—						
1,876	1,917	41	General Administration.....	1,654	1,708	54
Maintenance and Operation of Public Buildings and						
Grounds—						
2,798	2,619	(179)	Ottawa.....	2,579	2,308	(271)
4,044	4,436	392	Other than Ottawa.....	3,616	3,998	382
935	744	(191)	Harbours and Rivers Engineering Services.....	803	686	(117)
177	940	763	Development Engineering Services.....	177	794	617
168	167	(1)	Testing Laboratories.....	147	152	5
9,998	10,823	825		8,976	9,646	670
The increases in employees authorized and on strength at March 31, 1965 reflect the take-over from the Department of National Defence effective April 1, 1964 of the responsibility for buildings and maintenance at Fort Pepperell (185 positions) and Fort Churchill (478 positions) and for operation and maintenance of the Northwest Highway System (751 positions), a total of 1,414 positions of which 1,174 were filled at the year end.						
Royal Canadian Mounted Police (Civilian Staffs)—						
649	647	(2)	Headquarters.....	561	621	60
1,009	1,009	—	Land, Air and Training Divisions.....	963	957	(6)
13	12	(1)	Marine Services.....	13	10	(3)
1,671	1,668	(3)		1,587	1,688	51
Secretary of State—						
63	75	12	Departmental Administration.....	60	76	16
33	36	3	Companies and Corporations Branch.....	25	35	10
360	399	39	Bureau for Translations.....	314	356	42
137	134	(3)	National Museum.....	104	117	13
52	53	1	Trade Marks Office.....	45	53	8
402	385	(17)	Patent and Copyright Office.....	332	367	35
8	14	6	Atlantic Development Board.....	8	13	5
99	100	1	Economic Council of Canada.....	61	84	23
18	18	—	Office of the Representation Commissioner.....	15	16	1
1,172	1,214	42		964	1,117	153
Trade and Commerce—						
521	593	72	Departmental Administration.....	477	526	49
624	667	43	Trade Commissioner Service.....	623	656	33
446	484	38	Standards Branch.....	444	468	24
52	183	131	Exhibitions Branch.....	46	169	123
172	251	79	Canadian Government Travel Bureau.....	174	223	49
12	56	44	Canadian Government Participation 1967 Exhibition.	3	46	43
2,227	2,350	123	Dominion Bureau of Statistics.....	2,099	2,240	141
73	86	13	National Energy Board.....	64	74	10
4,127	4,670	543		3,930	4,402	472
Transport—						
682	694	12	Departmental Administration.....	596	634	38
Marine Services—						
2,428	2,108	(320)	Marine Administration and Marine Works.....	2,109	2,127	18
2,075	2,056	(19)	Marine Operations.....	1,869	1,879	10
498	478	(20)	Marine Regulations.....	387	406	19



## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Concluded						
Transport— <i>Concluded</i>						
Air Services—						
490	479	(11)	Administration.....	420	438	18
1,679	1,715	36	Control of Civil Aviation and Air Traffic Control..	1,514	1,528	14
2,655	2,380	(275)	Airports and Property Management.....	2,170	2,336	166
719	575	(144)	Construction Branch.....	625	660	35
3,079	3,024	(55)	Telecommunications and Electronics Branch.....	2,792	2,876	84
2,397	2,407	10	Meteorological Branch.....	1,992	2,162	170
90	93	3	Air Transport Board.....	84	87	3
178	178	—	Board of Transport Commissioners.....	167	171	4
26	28	2	Canadian Maritime Commission.....	26	28	2
16,996	16,215	(781)		14,751	15,332	581
Veterans Affairs—						
1,454	1,355	(99)	Administration.....	1,259	1,266	7
11,135	10,824	(311)	Treatment Services.....	10,528	10,397	(131)
808	789	(19)	Welfare Services.....	714	734	20
380	359	(21)	Pensions Administration.....	338	332	(6)
790	680	(110)	Veterans' Land Act Administration.....	657	637	(20)
14,567	14,007	(560)		13,496	13,566	(150)
216,075	217,507	1,432	Total, Departments.....	196,626	200,798	4,172
CROWN CORPORATIONS (Notes 1 and 2)						
Air Canada—						
Operations Department—						
			Flying personnel.....	1,254	1,408	154
			Other personnel.....	6,180	6,360	180
			Sales Department.....	2,638	2,758	120
			Purchases and Stores Department.....	556	555	(1)
			Finance Department.....	474	492	18
			All Other.....	321	336	15
11,423	11,909	486		11,423	11,909	486
Atomic Energy of Canada Limited—						
10	15	5	Head Office.....	10	15	5
2,356	2,420	64	Chalk River Nuclear Laboratories.....	2,227	2,258	31
361	397	36	Commercial Products Division.....	351	397	46
241	347	106	Whiteshell Nuclear Research Establishment.....	181	312	131
225	293	68	Power Projects.....	227	293	66
109	139	30	Temporary—Construction workers, nurses, etc.....	109	139	30
3,302	3,611	309		3,105	3,414	309
Canadian Arsenals Limited—						
			Head Office.....	76	35	(41)
			Filling Division.....	388	296	(92)
			Explosives Division.....	274	216	(58)
			Dominion Arsenals Division.....	363	433	70
			Small Arms Division.....	221	205	(16)
			Instruments and Electronics Division.....	160	—	(160)
1,482	1,185	(297)		1,482	1,185	(297)
Canadian Broadcasting Corporation—						
558	537	(21)	Head Office.....	500	491	(9)
305	316	11	National Engineering.....	277	274	(3)
7,104	7,319	215	Regional Offices.....	6,907	7,201	294
15	15	—	Foreign Offices.....	15	15	—
73	75	2	Northern and Armed Forces Services.....	81	84	3
164	176	12	International Services.....	159	173	14
8,219	8,438	219		7,939	8,258	299

## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
CROWN CORPORATIONS (Continued)						
Canadian Corporation for the 1967 World Exhibition—						
Administrative—						
11	15	4	Executive.....	11	15	4
24	47	23	Secretariat.....	23	36	13
69	133	64	Finance and Administration.....	68	114	46
167	247	80	Installations.....	125	191	66
75	57	(18)	Exhibitors.....	59	50	(9)
—	93	93	Public Relations.....	—	57	57
63	108	45	Operations.....	26	78	52
Operating—						
—	5	5	Finance and Administration.....	—	—	—
—	15	15	Installations.....	—	3	3
—	11	11	Operations.....	—	2	2
409	731	322		312	546	234
87	2	(85)	Canadian Commercial Corporation.....	87	2	(85)
Canadian National Railways—						
			General.....	10,996	11,321	325
			Road Maintenance.....	16,564	15,317	(1,247)
			Equipment Maintenance.....	17,843	18,766	923
			Transportation.....	32,812	34,992	2,180
			Other Operations.....	11,118	9,817	(1,301)
89,333	90,213	880		89,333	90,213	880
Canadian Overseas Telecommunication Corporation—						
			Administrative.....	87	97	10
			Head Office Engineering.....	38	57	19
			Traffic Representatives.....	11	12	1
			Operating.....	398	426	28
534	592	58		534	592	58
Canadian Patents and Development Limited—(Staff on loan from National Research Council).....						
4	4	—		4	4	—
50	85	35	Centennial Commission.....	46	66	20
Central Mortgage and Housing Corporation—						
			Regular.....	1,992	1,968	(24)
			Contract and casual.....	84	68	(16)
2,076	2,036	(40)		2,076	2,036	(40)
97	106	9	Crown Assets Disposal Corporation.....	97	106	9
Defence Construction (1951) Limited—						
			Administration.....	121	103	(18)
			Engineers.....	58	43	(15)
			Technical.....	67	51	(16)
246	197	(49)		246	197	(49)
33	33	—	Eldorado Aviation Limited.....	33	33	—
Eldorado Mining and Refining Limited—						
			Head Office and General Administration.....	42	37	(5)
			Beaverlodge Division.....	520	528	8
			Refinery and Sales.....	142	157	15
			Research and Development.....	63	63	—
767	785	18		767	785	18
61	71	10	Export Credits Insurance Corporation.....	61	67	6
Farm Credit Corporation—						
			Executive Officers.....	3	3	—
			Branch Managers, Assistant Branch Managers, Lend- ing Officers.....	48	48	—
			Credit Supervisors, Credit Advisors.....	195	218	23
			Solicitors, Notaries.....	9	11	2
			Administrative, Accounting, Securities Officers.....	24	22	(2)
			Office Staff.....	219	227	8
3	3	—		498	529	31
51	54	3				
211	242	31				
12	11	(1)				
25	26	1				
234	258	24				
536	594	58				

## SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Concluded

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
			CROWN CORPORATIONS (Concluded)			
22	20	(2)	The National Battlefields Commission .....	22	20	(2)
			National Capital Commission—			
28	36	8	Administrative and Accounting .....	26	32	6
42	46	4	Planning, Property Acquisition and Management .....	34	43	9
			Landscape Architecture, Engineering, Construction			
59	63	4	and Maintenance .....	55	57	2
515	513	(2)	Prevailing rate—permanent and seasonal .....	277	289	12
146	149	3	Construction employees for special works .....	146	149	3
790	807	17		538	570	32
			National Harbours Board—			
			Head Office .....	57	61	4
			Harbours and Elevators—			
			Salaried .....	836	818	(18)
			Prevailing rate .....	1,392	1,367	(25)
2,285	2,246	(39)		2,285	2,246	(39)
			Northern Canada Power Commission—			
			Head and Edmonton Offices .....	39	42	3
			Field Locations .....	170	203	33
209	245	36		209	245	36
37	38	1	Northern Transportation Company Limited .....	37	38	1
			Polymer Corporation Limited and Subsidiary Com- panies—			
1,336	1,442	106	Salaried .....	1,298	1,367	69
2,042	2,140	98	Hourly rate .....	2,042	2,091	49
3,378	3,582	204		3,340	3,468	118
			The St. Lawrence Seaway Authority—			
			Administrative and Engineering .....	275	344	69
			Operations .....	650	694	44
			Maintenance .....	485	428	(57)
1,410	1,466	56		1,410	1,466	56
18	18	—	The Seaway International Bridge Corporation, Ltd. .	18	18	—
126,808	129,014	2,206	Total, Crown Corporations .....	125,902	127,983	2,081
			OTHER INSTRUMENTALITIES—(Notes 1 and 2)			
1,080	1,072	(8)	Bank of Canada .....	1,080	1,072	(8)
34	32	(2)	The Canada Council .....	34	32	(2)
614	580	(34)	The Canadian Wheat Board .....	614	580	(34)
10	10	—	The Custodian .....	10	10	—
499	522	23	Industrial Development Bank .....	499	522	23
864	918	54	National Film Board .....	780	828	48
3,101	3,134	33	Total, Other Instrumentalities .....	3,017	3,044	27
345,984	349,655	3,671	TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES .....	325,545	331,825	6,280

## NOTES:

- (1) The figures appearing in these listings are based on the information provided by the various departments, Crown corporations and other instrumentalities. They include the numbers of seasonal, part-time and casual employees actually on strength at March 31, 1964 and March 31, 1965. For purposes of comparison these have been included in the figures shown for "Employees authorized".
- (2) Where no establishments have been authorized by the executive boards of certain Crown corporations or other instrumentalities, the totals of the actual strength figures have been shown in the "Employees authorized" columns for purposes of comparison.



**SUMMARY OF EXPENDITURE BY STANDARD OBJECTS  
FOR THE FISCAL YEAR ENDED MARCH 31, 1965**

(with comparative figures for the preceding fiscal year)  
(in millions of dollars)

	1964-65	1963-64	Increase or decrease (—)
Civil salaries and wages.....	\$ 951.8	\$ 908.3	\$ 43.5
Civilian allowances.....	18.8	17.9	.9
Pay and allowances, defence forces and Royal Canadian Mounted Police.....	606.9	613.0	—6.1
Professional and special services.....	99.7	97.0	2.7
Travelling and removal expenses.....	67.1	63.1	4.0
Freight, express and cartage.....	10.0	10.9	— .9
Postage.....	7.1	5.9	1.2
Telephone, telegrams and other communication services.....	39.6	36.2	3.4
Publication of departmental reports and other material.....	11.2	9.7	1.5
Exhibits, advertising, films, broadcasting and displays.....	18.0	14.1	3.9
Office stationery, supplies, equipment and furnishings.....	27.6	27.0	.6
Materials and supplies.....	177.3	179.8	—2.5
Buildings and works, including land—			
Construction or acquisition.....	244.6	210.4	34.2
Repairs and upkeep.....	66.9	62.1	4.8
Rentals.....	19.9	17.2	2.7
Equipment—			
Construction or acquisition.....	283.4	300.3	—16.9
Repairs and upkeep.....	156.5	161.3	—4.8
Rentals.....	6.3	6.4	— .1
Municipal or public utility services.....	77.1	70.3	6.8
Contributions, grants, subsidies, etc., not included elsewhere.....	838.3	860.6	—22.3
Pensions, superannuation and other benefits.....	176.0	226.1	—50.1
All other expenditures (other than special categories).....	196.9	144.9	52.0
Interest on public debt, etc.....	1,051.3	993.7	57.6
Subsidies and special payments to the provinces.....	358.4	254.3	104.1
Family allowance payments.....	545.8	538.3	7.5
Youth allowance payments.....	26.8	—	26.8
Old age assistance, blind persons and disabled persons allowances and unemploy- ment assistance.....	181.5	171.8	9.7
Veterans' disability pensions, etc.....	180.3	173.2	7.1
Other payments to veterans and dependents.....	104.4	94.3	10.1
Government's contribution to the Unemployment Insurance Fund.....	62.2	59.3	2.9
Hospital insurance and general health grants.....	490.6	445.2	45.4
Trans-Canada Highway contributions.....	76.1	39.2	36.9
Movement of mail by land, air and water.....	68.7	65.5	3.2
Deficits—Government-owned enterprises.....	54.0	55.2	—1.2
	7,301.1	6,932.5	368.6
Less: Expenditure recovered.....	82.8	60.1	22.7
Net total expenditure.....	\$ 7,218.3	\$ 6,872.4	\$ 345.9

## EXHIBITS

(as published in the Public Accounts)

Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965 (with comparative figures for the preceding fiscal year).....	Exhibit 1
Statement of Assets and Liabilities as at March 31, 1965 (with comparative figures as at March 31, 1964).....	Exhibit 2
Summary of Appropriations, Expenditures and Unexpended Balances by Depart- ments for the fiscal year ended March 31, 1965.....	Exhibit 3
Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1965.....	Exhibit 4

## THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR  
(with comparative figures for  
EXPENDITURE

	Fiscal year ended	
	March 31, 1965	March 31, 1964
Agriculture.....	\$ 165,723,844	\$ 225,681,474
Atlantic Development Board.....	4,294,152	196,331
Atomic Energy.....	46,564,793	45,955,220
Auditor General's Office.....	1,589,889	1,258,359
Board of Broadcast Governors.....	367,645	341,849
Canadian Broadcasting Corporation.....	87,969,198	87,575,697
Central Mortgage and Housing Corporation.....	14,952,238	13,469,874
Office of the Chief Electoral Officer.....	578,175	11,875,892
Citizenship and Immigration.....	82,357,670	71,545,372
Civil Service Commission.....	6,226,358	5,224,776
Defence Production.....	24,146,395	22,559,354
Economic Council of Canada.....	833,873	164,824
Emergency Measures Organization.....	7,653,868	6,942,249
External Affairs.....	131,186,586	97,022,596
Finance—		
Public debt charges.....	1,051,290,596	993,729,375
Fiscal, tax-sharing, subsidy and other payments to provinces.....	358,357,022	254,330,006
Other expenditure.....	178,427,749	158,375,231
	<i>1,588,075,367</i>	<i>1,406,434,612</i>
Fisheries.....	25,593,261	23,716,314
Forestry.....	49,754,438	41,815,947
Governor General and Lieutenant-Governors.....	648,703	524,159
Industry.....	23,788,581	19,701,651
Insurance.....	1,445,861	1,435,005
Justice.....	53,529,441	40,995,992
Labour.....	283,724,837	280,383,807
Legislation.....	14,214,867	12,912,533
Mines and Technical Surveys.....	75,237,766	67,759,325
National Capital Commission.....	10,354,431	12,157,998
National Defence—		
Royal Canadian Navy.....	272,532,495	297,972,475
Canadian Army.....	433,551,506	454,465,501
Royal Canadian Air Force.....	656,033,636	700,847,349
Defence research and development.....	54,531,462	46,053,342
Other expenditure.....	118,985,598	184,132,336
	<i>1,535,634,697</i>	<i>1,683,471,003</i>
National Film Board.....	6,353,633	5,743,931
National Gallery.....	1,303,734	1,067,949
National Health and Welfare—		
Family allowances.....	545,775,231	538,312,223
Other expenditure.....	751,811,068	665,542,374
	<i>1,297,586,299</i>	<i>1,203,854,597</i>
National Research Council, including the Medical Research Council.....	56,641,725	47,259,773
National Revenue.....	86,908,544	82,995,521
Northern Affairs and National Resources.....	80,894,715	77,334,019
Post Office.....	210,458,702	206,894,516
Privy Council.....	4,568,571	2,940,181
Public Archives and National Library.....	1,507,268	1,112,723
Public Printing and Stationery.....	2,732,686	2,147,045
Public Works.....	224,510,352	154,842,706
Office of the Representation Commissioner.....	224,521	37,006
Royal Canadian Mounted Police.....	76,198,876	66,899,479
Secretary of State.....	21,909,881	7,568,044
Trade and Commerce.....	90,042,850	73,584,061
Transport.....	466,947,594	423,257,874
Veterans Affairs—		
Pensions.....	180,326,163	173,164,513
Other expenditure.....	172,711,504	160,575,368
	<i>353,037,667</i>	<i>333,739,881</i>
Total expenditure.....	7,218,274,552	6,872,401,519
Budgetary deficit.....	-37,964,765	-619,197,480
	<i>7,180,309,787</i>	<i>6,253,204,039</i>

H. R. BALLS,  
*Comptroller of the Treasury.*

R. B. BRYCE,  
*Deputy Minister of Finance.*



OF CANADA

REVENUE

	Fiscal year ended	
	March 31, 1965	March 31, 1964
Tax revenues—		
Income tax—		
Personal <sup>(1)</sup> .....	\$2,103,281,916	\$1,865,073,635
Corporation <sup>(1)</sup> .....	1,523,814,601	1,258,957,490
On dividends, interest, etc., going abroad.....	143,717,945	124,499,621
Excise taxes—		
Sales <sup>(1)</sup> .....	1,204,609,935	946,054,797
Other.....	269,082,084	273,415,444
Customs import duties.....	622,101,883	581,441,461
Excise duties.....	411,402,145	393,326,182
Estate tax <sup>(2)</sup> .....	88,625,641	90,671,283
Miscellaneous.....	140,100	91,869
	<i>6,366,776,250</i>	<i>5,533,531,782</i>

## Non-tax revenues—

Return on investments.....	422,693,741	366,412,592
Post Office—net postal revenue.....	230,435,714	200,717,142
Refunds of previous years' expenditure.....	20,545,944	26,839,307
Services and service fees.....	60,924,531	51,321,056
Proceeds from sales.....	24,250,122	28,444,672
Privileges, licences and permits.....	30,824,939	27,172,568
Bullion and coinage.....	12,298,922	9,717,080
Premium, discount and exchange.....		232,234
Miscellaneous.....	11,559,624	8,815,606
	<i>813,533,537</i>	<i>719,672,257</i>

(1) Excluding tax credited to the old age security fund—

	1964-65	1963-64
Personal income tax.....	431,900,000	302,600,000
Corporation income tax.....	145,250,000	115,750,000
Sales tax.....	383,151,254	331,760,067

<sup>(2)</sup>Includes duties levied under the Dominion Succession Duty Act.

Total revenue.....	7,180,309,787	6,253,204,039
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### Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditures and revenues of Canada for the year ended March 31, 1965.

A. M. HENDERSON,  
*Auditor General.*

## THE GOVERNMENT

STATEMENT OF ASSETS AND  
(with comparative figures)

## ASSETS

	March 31, 1965	March 31, 1964	Net increase or decrease (—) during 1964-65
1. Current assets—			
(a) Cash, schedule A, page 9.....	\$ 850,282,135	\$ 984,642,872	\$ -134,360,737
(b) Departmental working capital advances and revolving funds, schedule B, page 9.....	134,150,957	168,806,488	-34,655,531
(c) Securities held for the securities investment account at amortized cost.....	57,119,872	99,859,788	-42,739,916
(d) Other current assets, schedule C, page 11.....	29,134,994	33,484,613	-4,349,619
	1,070,687,968	1,286,793,761	-216,106,803
2. Advances to the exchange fund account—(value of investments from advances on basis of official parity rate March 31, 1965, \$2,653,406,754; official parity rate March 31, 1964, \$2,631,200,188).....	2,621,000,000	2,601,000,000	20,000,000
3. Investments in special United States of America securities— Columbia River Treaty.....	219,479,161		219,479,161
4. Sinking fund and other investments held for retirement of un- matured debt, schedule D, page 11.....	5,441,198		5,441,198
5. Loans to, and investments in, Crown corporations, schedule E, page 11.....	4,996,301,176	4,584,194,507	412,106,669
6. Loans to national governments, schedule F, page 13.....	1,206,576,551	1,195,684,799	10,891,752
7. Other loans and investments, schedule G, page 14—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	709,753,537	702,130,003	7,623,534
(b) Loans to provincial governments.....	98,435,806	113,651,578	-15,215,772
(c) Veterans land act advances (less reserve for conditional benefits).....	231,322,169	216,970,307	14,351,862
(d) Miscellaneous.....	99,869,916	165,064,212	-65,194,296
	1,139,381,428	1,197,816,100	-58,434,672
8. Securities held in trust, schedule H, page 17.....	53,059,934	38,881,823	14,178,111
9. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	53,761,600		53,761,600
Public service superannuation account.....	39,920,800	276,661,000	-236,740,200
Royal Canadian Mounted Police superannuation account.....	4,153,600		4,153,600
(b) Unamortized loan flotation costs, appendix No. 7, Section 9, page 15.....	110,749,442	123,699,586	-12,950,144
	208,585,442	400,360,586	-191,775,144
10. Suspense accounts, schedule I, page 18.....		141,392	-141,392
11. Capital assets.....	1	1	
12. Inactive loans and investments, schedule J, page 18.....	94,824,381	94,824,381	
Total recorded assets.....	11,615,337,230	11,399,697,350	215,639,880
13. Less: Reserve for losses on realization of assets.....	-546,384,065	-546,384,065	
Net recorded assets.....	11,068,953,165	10,853,313,285	215,639,880
14. Net debt, represented by excess of liabilities over net recorded assets, schedule K, page 18.....	15,504,472,544	15,070,149,452	434,323,092
	26,573,425,709	25,923,462,737	649,962,972

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,  
*Comptroller of the Treasury.*

R. B. BRYCE,  
*Deputy Minister of Finance.*

(The schedules and the appendix referred to in the above Statement, and the pages referred to in the two notes, are to be found in the Public Accounts, Section 7 of Volume I)

## EXHIBIT 2

## OF CANADA

LIABILITIES AS AT MARCH 31, 1965  
as at March 31, 1964)

## LIABILITIES

	March 31, 1965	March 31, 1964	Net increase or decrease (—) during 1964-65
15. Current and demand liabilities, schedule L, page 19—			
(a) Outstanding treasury cheques.....	\$ 315,077,233	\$ 319,625,031	\$ -4,547,798
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	363,925,315	342,673,020	21,252,295
(c) Non-interest-bearing notes payable to the international monetary fund and the international development associa- tion.....	367,897,531	586,996,025	-219,098,494
(d) Matured debt outstanding.....	19,140,916	26,820,208	-7,679,292
(e) Interest due and outstanding.....	102,034,032	91,893,490	10,140,542
(f) Interest accrued.....	231,173,522	215,973,372	15,200,150
(g) Other current liabilities.....	33,367,648	35,710,909	-2,343,261
	1,432,616,197	1,619,692,055	-187,075,858
16. Deposit and trust accounts, schedule M, page 21.....	272,311,590	196,454,123	75,857,467
17. Annuity, insurance and pension accounts, schedule N, page 25..	5,675,840,853	5,131,053,811	544,787,042
18. Undisbursed balances of appropriations to special accounts, schedule O, page 26.....	95,702,607	111,601,270	-15,898,663
19. Deferred credits, schedule P, page 26.....	113,208,312	119,446,821	-6,238,509
20. Suspense accounts, schedule Q, page 26.....	5,531,971	5,117,628	414,343
21. Unmatured debt, schedule R, page 28—			
(a) Bonds.....	16,838,214,179	16,510,097,029	328,117,150
(b) Treasury bills.....	2,140,000,000	2,230,000,000	-90,000,000
	18,978,214,179	18,740,097,029	238,117,150

## NOTE:

The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, \$1,368,297,986; other guarantees of \$6,597,743,540; together with certain indeterminate guarantees, are listed on page 83.

Total liabilities.....	26,573,425,709	25,923,462,737	649,962,972
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## Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1965.

A. M. HENDERSON,  
Auditor General.



**SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES  
BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1965**

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward <sup>(1)</sup>
		\$	\$	\$	\$
1	Agriculture.....	168,791,484	165,723,844	3,067,640	
2	Atlantic Development Board.....	4,356,509	4,294,152	62,357	
3	Atomic Energy.....	46,583,500	46,564,793	18,707	
4	Auditor General's Office.....	1,595,500	1,589,889	5,611	
5	Board of Broadcast Governors.....	390,300	367,645	22,655	
6	Canadian Broadcasting Corporation.....	88,000,000	87,969,198	30,802	
7	Central Mortgage and Housing Corporation.....	14,962,564	14,952,238	10,326	
8	Office of the Chief Electoral Officer.....	588,364	578,175	10,189	
9	Citizenship and Immigration.....	83,638,328	82,357,670	1,280,658	
10	Civil Service Commission.....	6,399,975	6,226,358	173,617	
11	Defence Production.....	25,585,190	24,146,395	1,438,795	
12	Economic Council of Canada.....	885,920	833,873	52,047	
13	Emergency Measures Organization.....	10,296,000	7,653,868	2,642,132	
14	External Affairs.....	135,743,952	131,186,586	4,557,366	
15	Finance.....	1,598,518,683	1,588,075,367	10,443,316	
16	Fisheries.....	27,678,605	25,593,261	2,085,344	
17	Forestry.....	53,541,348	49,754,438	3,786,910	
18	Governor General and Lieutenant-Governors.....	678,567	648,703	29,864	
19	Industry.....	24,654,100	23,788,581	865,519	
20	Insurance.....	1,462,446	1,445,861	16,585	
21	Justice.....	56,834,121	53,529,441	3,304,680	
22	Labour.....	(2) 371,958,225	283,724,837	46,160,819	42,072,569
23	Legislation.....	14,301,317	14,214,867	86,450	
24	Mines and Technical Surveys.....	78,027,496	75,237,766	2,789,730	
25	National Capital Commission.....	10,463,001	10,354,431	108,570	
26	National Defence.....	1,546,751,222	1,535,634,697	11,116,525	
27	National Film Board.....	6,353,700	6,353,633	67	
28	National Gallery of Canada.....	1,322,700	1,303,734	18,966	
29	National Health and Welfare.....	1,302,144,072	1,297,586,299	4,557,773	
30	National Research Council, including the Medical Research Council.....	58,360,901	56,641,725	1,719,176	
31	National Revenue.....	89,670,744	86,908,544	2,762,200	
32	Northern Affairs and National Resources.....	(3) 94,086,315	80,894,715	13,191,600	
33	Post Office.....	211,904,673	210,458,702	1,445,971	
34	Privy Council.....	4,875,885	4,568,571	307,314	
35	Public Archives and National Library.....	1,567,800	1,507,268	60,532	
36	Public Printing and Stationery.....	2,954,600	2,732,686	221,914	
37	Public Works.....	227,547,188	224,510,352	3,036,836	
38	Office of the Representation Commissioner.....	224,521	224,521		
39	Royal Canadian Mounted Police.....	77,316,764	76,198,876	1,117,888	
40	Secretary of State.....	22,333,154	21,909,881	423,273	
41	Trade and Commerce.....	91,688,507	90,042,850	1,645,657	
42	Transport.....	438,599,309	418,735,575	19,863,734	
	Canadian Maritime Commission.....	41,399,982	40,635,156	764,826	
	National Harbours Board.....	8,853,301	7,576,863	1,276,438	
43	Veterans Affairs.....	358,015,684	353,037,667	4,978,017	
		(4) 7,411,906,517	7,218,274,552	151,559,396	42,072,569

(1) Available for expenditure in 1965-66.

(2) Includes \$54,913,000 carried forward from 1963-64 appropriations.

(3) Includes \$225,000 carried forward from 1963-64 appropriations.

(4) In addition, parts of appropriations in respect of the following departments and expenditures in similar amounts were transferred to "Other loans and investments", as follows: Agriculture \$4,332,269 and National Health and Welfare \$2,250.

H. R. BALLS,  
*Comptroller of the Treasury.*

*Auditor General's Certificate*

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1965.

A. M. HENDERSON,  
*Auditor General.*

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1965

Section (Volume II)	Department	Tax revenues	Return on investments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous expenditure	Miscel- laneous	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Agriculture.....		349,801			1,619,656	1,388,211	7,090,450	258,608	58,916	10,765,732
3	Atomic Energy.....		348,480					12,098	187		348,617
4	Auditor General's Office.....								666		12,764
5	Board of Broadcast Governors.....								75	770	845
6	Canadian Broadcasting Corporation.....						3,135				3,135
7	Central Mortgage and Housing Corporation.....						5,007,046				100,249,435
8	Office of the Chief Electoral Officer.....		93,349,200					98,396	452,847	1,440,342	100,249,435
9	Citizenship and Immigration.....		37,704			973,095	96,999	14	10	2,310	1,792,981
10	Civil Service Commission.....							143,480	60		74
11	Defence Production.....		5,593,577				9,865,343		14,032	27,035	15,043,467
12	Economic Council of Canada.....								136		136
13	Emergency Measures Organization.....								79,961	84,599	181,776
14	External Affairs.....		1,393,626			15,423	1,200	683	13,448	13,448	2,728,905
15	Finance.....		262,586,245	12,298,922		1,124,198	40,497	12,117	430,396	674,288	278,931,226
16	Fisheries.....		640,351			128,664	126,788	28,005	11,141	41,892	977,441
17	Forestry.....					116,453	54,901	4,260	95,111	1,301	272,026
19	Industry.....								102,353		102,353
20	Insurance.....	138,249						829,919		370	968,538
21	Justice.....		393,873			2,300,936	307,083	278,409	90,470	316,534	3,687,305
22	Labour.....		2,142				3,604	1,817	1,336,462	833,888	2,177,913
23	Legislation.....					165,090		4,132	1,267	4,362	174,851
24	Mines and Technical Surveys.....		188,393			27,175	547,873	7,442	24,701	21,824	817,408
26	National Defence.....		1,092,391			1,632,864	2,549,913	2,230,917	11,879,908	3,368,595	22,768,588
27	National Film Board.....								91,799		91,799
28	National Gallery of Canada.....								2,677	20,567	23,244
29	National Health and Welfare.....	82				346,792	167,769	5,037,912	934,841	56,801	6,546,397
30	National Research Council including Medical Research Council.....		376						77,643	377	78,396
31	National Revenue.....	6,366,636,150	1,545			207,672	110,559	566,000	5,954	1,744,682	6,369,272,562
32	Northern Affairs and National Resources.....	1,851	504,820			4,460,173	676,186	574,700	552,040	155,819	6,925,589
33	Post Office.....		2,770		230,435,714		17,214		6,934	20,042	230,488,694
34	Privy Council.....								5,017	5,001	10,018
35	Public Archives and National Library.....		8,731			77,212	1,833,174	9,334	4,676	178	22,919
36	Public Printing and Stationery.....					2,524,840	116,468	857,946	650,677	19,017	1,961,660
37	Public Works.....					767,035	453,611	15,937,270	173,732	464,076	4,614,007
39	Royal Canadian Mounted Police.....		15,342			494,913	2,484	172,387	384	145,157	17,492,147
40	Secretary of State.....					23,685	1,108	2,353,172	25,179	1,398,883	670,447
41	Trade and Commerce.....		4,549,451			13,777,077	820,893	21,710,480	733,822	141,352	80,473,739
42	Transport.....		43,290,115								
43	Veterans Affairs.....		8,344,776			41,986	38,022		2,134,469	127,112	10,686,365
		6,366,776,250	422,693,741	12,298,922	230,435,714	30,824,939	24,280,122	60,924,531	20,545,944	11,559,624	7,180,309,787

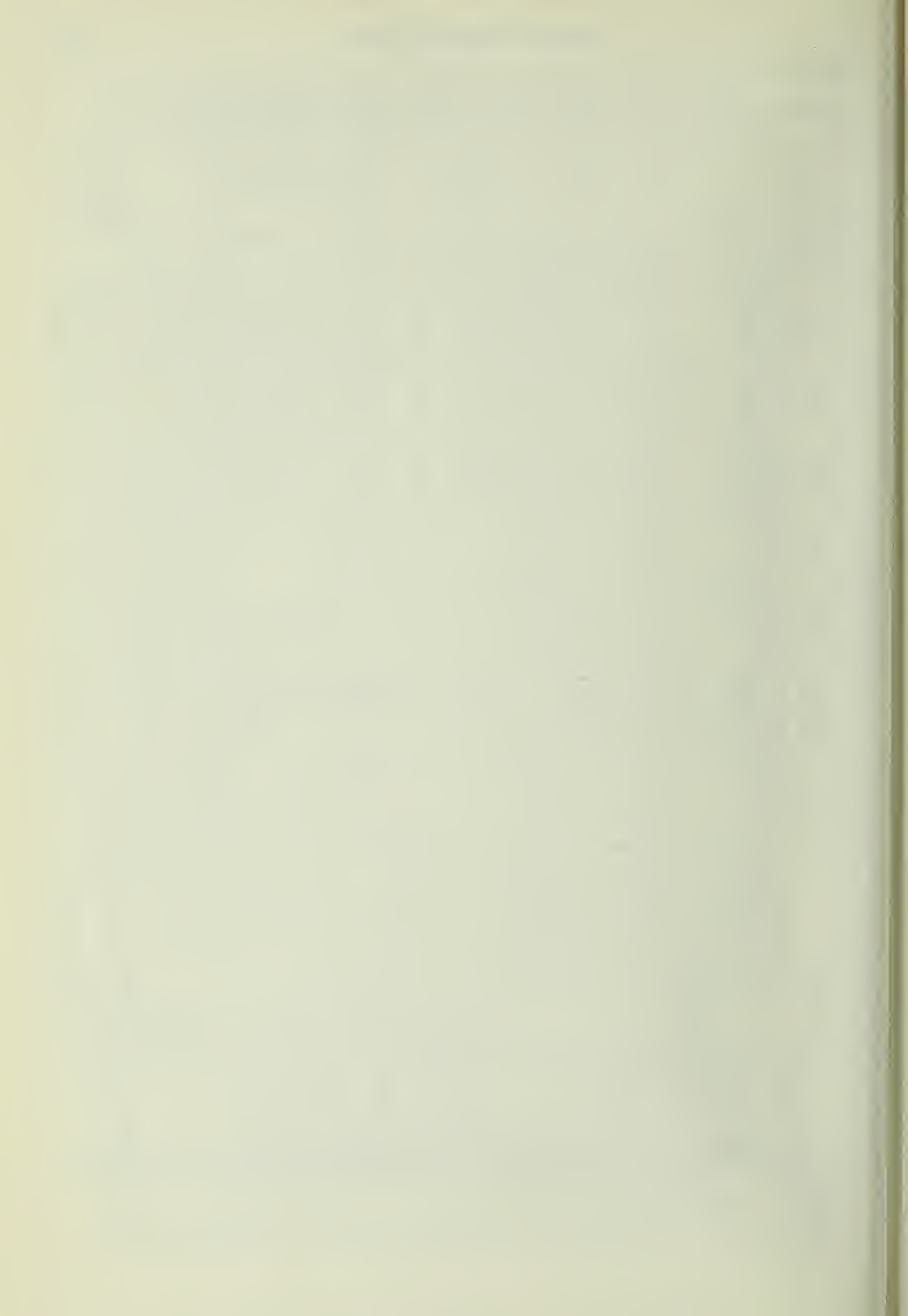
H. R. BALLS,  
*Comptroller of the Treasury.*

*Auditor General's Certificate*

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1965.

A. M. HENDERSON,  
*Auditor General.*

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)









**BINDING SECT. OCT 14 1981**



